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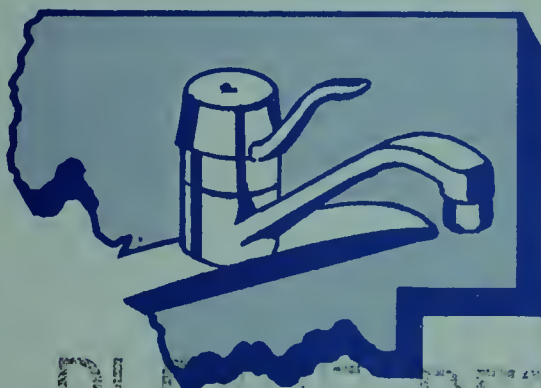
PLANNING AND FINANCING COMMUNITY WATER AND SEWER SYSTEMS IN MONTANA

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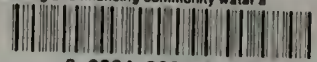
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PLANNING AND FINANCING COMMUNITY WATER AND SEWER SYSTEMS IN MONTANA

THIRD EDITION

July 1991

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PREFACE

Planning and Financing Community Water and Sewer Systems in Montana is written for the non-engineer. This publication is written for Montana local government officials and technical staff. It is designed to provide an overview of the process of financing a water or sewer system. Financing a local water and sewer system requires local government officials and technical staff to make many policy and financial decisions. This publication provides suggestions on how to better manage the facility financing process. This publication is general in nature so it may be used by those local government representatives typically involved in the facility planning financing process -- governing body officials, planners, public works directors, community development directors, finance officers, and representatives of water and sewer districts or organizations.

Part I: Introduction

A. Introduction

This workbook is intended to provide local communities, in particular the smaller communities in the state, with information and guidance on how to plan and finance an improvements program for their water and sewer systems. With this in mind the subject matter has been kept fairly general; however, where appropriate, specific approaches have been suggested. These approaches reflect the experience of the individuals who have prepared this document, and not everyone involved in water and sewer system planning and financing will agree with these approaches.

In order for this text to be useful, the authors felt it was necessary to commit to specific recommendations rather than merely offering a variety of options. It is our belief that if a community utilizes the approaches we suggest, it will lead them to sound and practical decisions on their water and sewer system improvement projects.

B. Water and Sewer Needs

There is no question that there is an urgent need for water and sewer improvements in Montana. For too long, communities have relied on past investments in water and sewer facilities to serve them. Maintenance in many cases has been inadequate, and replacement of worn-out facilities has been nil. The magnitude of the problem is dramatized by recent research by the Montana Department of Health and Montana Department of Commerce. Based on estimates prepared in January 1991, there are approximately \$131,500,000 of improvements needed for community sewer systems in Montana. Statewide community water system improvement needs are estimated to be \$357,700,000.

It is obvious that the magnitude of the water and sewer needs exceeds the financial capability of communities to finance them. Therefore, it is especially important that a community have the ability to understand their systems, set priorities, and establish appropriate capital improvements with a sound financial program.

C. Purpose

This workbook gives a "how-to" approach to planning, developing, and financing a water and sewer improvements program. The workbook also includes present information on available grants and loans as well as local financing options.

In order for a community to wisely invest limited funds, the community should be confident that the proposed improvements are the appropriate ones for the community. We cannot emphasize enough that a community should take at least the following steps before committing itself to any specific improvements:

- * identify feasible options that should be considered;
- * evaluate options and costs;
- * select a recommended program of improvements;
- * establish priorities; and
- * prepare a financial plan.

If a community follows these basic steps, it should be in a good position to intelligently implement a sound program of improvements.

D. Use of Workbook

This workbook is intended primarily for local government officials to assist them in establishing a logical process to evaluate their water and sewer systems and to embark upon an improvements program. It may also be useful to public works directors, planners, water and sewer system operators, and engineers. However, the subject area is broad and, therefore, much detail on specific elements has been omitted so that the workbook would not be too technical or cumbersome. The workbook is not intended to serve as a substitute for good professional engineers or financial assistance, and should not be used as such.

Part II: The Planning Process

A. General

There are a number of ways in which a community becomes interested in improving a water and sewer system. Most of these involve one of the following: 1) requests to extend the system beyond its present capacity; 2) replacement of an outdated or worn-out facility; 3) a failure or the possibility of a failure in an existing system; 4) installation of a system where no system presently exists; 5) to meet a regulatory requirement; or 6) a need to repair a system in order to prevent or resolve public health or environmental pollution problems.

Probably the most common reason is to meet a regulatory requirement. The state and federal governments have adopted certain requirements to protect the health and safety of the public, and if a community does not have a system that meets these standards, then it will generally be required to upgrade its facilities. Since these standards change over time as techniques and knowledge increase, it is reasonable to expect that a community should periodically review its facilities to see if they are appropriate for the population being served.

Once a community has made the decision that improvements to the water and/or sewer system are required, there are certain courses of action, procedures, and options of which the community should be aware.

B. Professional Assistance

It is seldom that a small community has the expertise on its staff or in town to adequately address the technical questions involved in a water and sewer system, the regulations and standards that must be adhered to, and the programs that are available for funding such improvements. It is strongly recommended that a community consider professional assistance, even in the early stages of a potential project.

There are several sources of technical assistance that a community may wish to consider for specific problems. These include the Montana Department of Commerce Community Technical Assistance Program, the State Water Quality Bureau, Montana Rural Water Systems Inc., Midwest Assistance Program, and

various others. In most cases, a community needs to consider hiring a private engineering and/or a financial consulting firm. The advantages of using a private firm are that the firm usually has practical experience and a broad view of water and sewer systems on which it can draw, has the ability to develop and explore various options, has full-time staff, and can represent the best interests of the community.

There are a wide range of capabilities in engineering firms, and a community should be selective in hiring a firm since the partnership between the community and the firm will usually last throughout the duration of the project. The community should make a general rule never to relinquish the decision-making power over the type of improvements to the engineer. The engineer will provide the technical information necessary to make the decision, but the community must decide for itself what types of improvements it should implement and what it can or cannot afford.

Other considerations in selecting an engineer include: 1) references and past work record; 2) staff capability and experience; and 3) the ability of the engineer to work with the community.

An excellent way of obtaining ideas on a system is to invite proposals from engineering firms and hold interviews. After the selection process, it is usually evident which firm the community will prefer. This process is explained in detail later in this workbook.

Communities may also need to hire a professional grant writer and financial consultant. Contact the Montana Department of Commerce Community Technical Assistance Program (444-3757) for a list of grant writers and financial consultants.

Either with or without professional assistance, the community should follow a process such as the one described below which will assure that the proper decision on improvements has been made.

C. Recommended Planning Procedures

The planning process should involve the following steps in the sequence in which they are listed.

- | | |
|--------|--|
| Step 1 | Examine Community Growth, Land Use, and Sewer and Water Policies |
| Step 2 | Inventory Existing Facilities |
| Step 3 | Determine Existing Condition |
| Step 4 | Identify Deficiencies -- Inform Citizens of Problems and Needs |
| Step 5 | Establish Feasible Options |

- | | |
|---------|---|
| Step 6 | Hold Public Meeting, Inform Citizens (Public Education and Input) |
| Step 7 | Estimate Costs |
| Step 8 | Evaluate Options |
| Step 9 | Select Improvements |
| Step 10 | Prepare Financial Plan |
| Step 11 | Hold Public Meeting, Inform Citizens (Public Education and Input) |
| Step 12 | Develop Implementation Strategy |

At the conclusion of these planning steps, the community should have a firm idea of its commitments, and the costs and benefits to the community of the proposed improvements. A description of what is involved in each step is given in the following section.

Step 1: Examine Community Growth, Land Use, and Sewer and Water Policies

The first step in the water and sewer planning process is to examine the growth in the community and current land use policies that might be in effect. Water and sewer are community services that are intended to serve developed areas. An effective water and sewer plan should be part of a more comprehensive community planning process so that both present and future needs can be met. In particular, if a community has definite plans for future growth, the water and sewer systems (as well as other community facilities and services) should be planned to be consistent with these commitments. If your community or county has a planning board, discuss these issues with the board. If you do not have a planning board, you may want to create one.

Step 2: Inventory Existing Facilities

It would seem that it is foolish to adopt a program to improve a community's water or sewer system without knowing what the existing system is, yet that is what many communities have done. It should go without saying that a community should be aware of what it has invested in its existing systems before improvements are discussed. This inventory could consist of researching records available locally and at the state level, conducting an inventory of facilities, and interviewing people who are or have been familiar with the system. A record of the existing facilities should be made to document the existing systems for analysis purposes and future generations. The documentation should consist of maps, plans, lists of existing facilities, operating characteristics, and maintenance schedules.

Step 3: Determine Existing Conditions

An assessment of the condition of the existing facilities should be made. The existing conditions should include information on age, materials, location,

physical condition, and operating condition of all elements of the facility. This step will provide information on the serviceability and life span of existing facilities, and will guide the community in determining repair, replacement, or new facility options. This step would also provide information to the community in establishing a capital improvements and replacement program.

Step 4: Identify Deficiencies

A comparison of the existing facilities with accepted standards provides the basis for identifying deficiencies in the system. It should be noted that operational characteristics (such as the quality of the water in a water supply system) can be deficient as well as physical elements of the system such as pumps. A deficiency analysis is a preliminary step in establishing an improvements program.

Step 5: Identify Feasible Options

One of the most overlooked elements of the planning process is the identification of options available to the community. In this step a community should not be afraid to identify options that may appear impractical at the time. It sometimes happens that an idea may not seem practical initially, but the concept in combination with other improvements or in a revised form may prove to be feasible. The community should establish a list of feasible options, and can discard at a later date those options that can be demonstrated to be impractical. This is one of the most interesting and challenging steps in the planning process, and the community can let its imagination run free at this stage.

Step 6: Hold Public Meeting, Inform Citizens (Public Education and Input)

The residents of a community will ultimately pay for the improvements to be implemented, and they are certainly entitled to voice their opinions. The depth of understanding and wealth of knowledge that many members of the community have is often surprising, and only comes to light at this time. This is the proper time to discuss the options being considered and to solicit ideas from the community. Any feasible options that are discovered should be added to the list of options. It is also advisable to offer residents the opportunity to contact a representative on a one-to-one basis to assure that those people who are uncomfortable in a public meeting have the opportunity to present their opinions.

The requirements for public participation in the planning process are also dependent on the scope of the project. Important issues that can be addressed in this step include:

- * recognition of the need for public participation;

- * development of a public participation program;
- * availability and provision of important documents;
- * public notification procedures;
- * public hearing and public meeting requirements;
- * summarizations of public participation at meetings or hearings; and
- * enforcement of public participation requirements

These steps are required for many state and federal assistance programs, and are advisable for any public utility improvements. The primary purpose of public involvement is to make sure the public is given an opportunity to express their opinions and concerns. Public scrutiny of the project is the only means of ensuring that the present and future community needs are met, impacts are addressed, and effective implementation occurs.

It is also suggested that community officials inform the public by placing articles in the local newspaper as well as by soliciting TV coverage. Local officials should explain the facility needs at meetings of local civic organizations. Flyers or brochures can be mailed to citizens to inform them about the water or sewer improvement needs. It is important to explain why the improvements are needed and what will happen if nothing is done.

Step 7: Estimate Costs

The major topic of interest to both the average citizen and the local official in the improvements program is "How much is it going to cost me?" A cost estimate of the feasible options that have been identified should be prepared. If user fees would be increased, figures on the monthly cost per user should be provided. At this stage, a totally accurate cost estimate is not necessary, but the costs should be broken down in sufficient detail to make a valid cost comparison between alternatives. In addition, the costs should include both operation and maintenance costs as well as capital costs. It is generally more preferable to err on the side of estimating too high if possible, recognizing the inflation factor likely to occur in the intervening years before actual construction takes place.

Step 8: Evaluate Options and Establish Priorities

Cost may not be the only factor to consider. The effectiveness and reliability of the proposed option, quality of the product, life expectancy, and maintenance and operation considerations are all factors that should be taken into account during the evaluation of the options. A suggested approach is to identify the evaluation criteria and methods in advance of the actual evaluation so that an objective evaluation of options can be done and a priority list established.

The following is a list of items that should be considered in the development of a priority list:

- * Desires of the existing residents;
- * Physical, financial, or institutional capacities of community services;
- * Dependency on meeting another community need;
- * Extended planning, construction or public involvement lead times;
- * Availability of funding, which may influence the project timing;
- * Immediate action that may be required to preserve the community environment or to protect public health;
- * Certain tax measures to ensure that those responsible for community growth will help to pay for expanded or new facilities;
- * A mandate by the community for a certain project, regardless of anticipated impacts; and
- * The necessary correction of a situation that is not in compliance with guidelines established by federal and state authorities.

Project priorities should change as conditions in the community change. For this reason, the community should not put itself into an inflexible position that limits community response to new growth. The assignment of priorities to projects does not necessarily commit the community to major expenditures, it is merely a planning tool. A simple approach to assigning project priorities would group project requests as follows:

<u>Priority One Projects:</u>	An already approved project to which the community is already committed; project funding and timing are inflexible.
<u>Priority Two Projects:</u>	A project that is needed by the community but for which funding sources are flexible.
<u>Priority Three Projects:</u>	A project that is desirable to the community and has great flexibility in funding and timing.
<u>Priority Four Projects:</u>	A project that may be necessary for the future but which is not needed at the present time.
<u>Priority Five Projects:</u>	A project that requires more planning and analysis before a local commitment can be made.

Step 9: Select Improvements

Based on the costs and other evaluation criteria, it should be possible to select a preferred option at this stage. The option selected at this point is known as the preferred option because there may be other complications such as right-of-way, water rights or additional information that comes to light in the future which may alter the option chosen. However, the evidence should be sufficient at this stage to determine the improvements that are the most appropriate and affordable for the community. The estimate of costs should also be refined during this step.

Step 10: Prepare Financial Plan

An adopted plan of improvements is of no use unless it can be funded. There are a number of alternatives for funding a water and sewer system that can be explored, including obtaining grant and loan assistance as well as local and private financing options. These programs are described in detail in other chapters of this workbook. The financing plan should identify the capital and annual costs, and the sources of funding in a detailed manner so that it is clear that the improvements program is financially feasible.

In order to develop an effective program for financing public improvements, local government must have an understanding of the elements that comprise financial planning and the effects that commitment to a financing program may have on the resources of the community. The following items will be addressed in this section: a) facility costs; b) funding sources; c) the financial plan; and d) impacts to community resources.

a. Facility Costs

A thorough understanding of detailed facility costs is a prerequisite to the commitment to a financial plan by local government. Local input at early stages of the planning process will ensure that project cost estimates are realistic and detailed enough to identify which portions of the project cost will be borne by local residents. The primary costs associated with the construction of new public facilities are for:

- * Land, rights-of-way, and easements;
- * Consulting services;
- * Actual construction costs;
- * Financing charges, including interim financing;
- * Annual operation and maintenance costs;
- * Administration costs; and
- * Future planning costs.

As a general rule, only costs associated with the actual design and construction activities of a project are eligible for funding through grant programs. All other operation and maintenance and annual costs must be paid for by local residents.

b. Funding Sources

Alternative funding sources should be identified for all institutions or agencies affected by the implementation of the selected alternative. This analysis should identify the advantages and disadvantages of the major funding categories, including intergovernmental sources of capital and local sources of capital and operating income. Federal and state grant programs represent a

major source of capital for local governments. These funding sources are generally distributed according to legislated formulas. Thorough investigation of these funds is necessary due to the frequent changes in state and federal grant programs. Current information on state and federal programs may be obtained through the Montana Department of Commerce Community Technical Assistance Program (444-3757), Midwest Assistance Program (862-3600), or the state or federal agencies themselves. Managers of a specific program are good sources of information.

Local sources of capital and operating income are generally based on long-term borrowing over the life of the project or pay-as-you-go financing in which expenditures are funded through annual operating revenues. Local sources of capital and operating income include:

- * General obligation bonds;
- * Revenue bonds;
- * Special assessment bonds;
- * Industrial development bonds;
- * Leasing arrangements;
- * Special improvement districts;
- * Tax measures; and
- * User fees and service charges.

Selection of local financing measures may be determined by the legal and bonding capability of the community, existing taxpayer obligations, and the political climate of the community. In most cases, local financing will involve the use of several of these revenue sources in an attempt to develop a system flexible enough to respond to inflation and population growth and control the overall revenue structure of the community.

c. The Financial Plan

The information obtained from the analysis of system costs and financing methods is utilized to develop a detailed financial plan for the project. The financial plan should identify the participating agencies or institutions and their responsibilities, identify the portion of costs to be paid with local revenues, estimate the portion of the annual capital and operating costs each agency is obligated to meet, and identify the funding sources for each cost. The financial plan should be formulated to cover the expected life span of the facility, and should be flexible enough to adapt to new funding possibilities or changing conditions within the community.

The financial plan should also include an assessment of the local community's ability to pay for the proposed project. The local government's expenditures, revenue generating ability, and debt capacity must be reviewed. The type and amount of outstanding debts and the amount of annual revenues required for

debt service is a primary indicator of the local community's ability to finance new programs. It is also necessary to project the expected burden on each local citizen so that the "bottom line" cost can be presented to the public.

d. Secondary Impacts

Secondary impacts are the indirect environmental effects that result from the implementation of the program. These secondary impacts may be economic, social or environmental in nature, and result in both positive and negative effects on the community. Many secondary impacts may be identified during the planning and design phases of the project; however, some cause-and-effect relationships may not be apparent before the project is implemented. Typical secondary impacts are long term, and generally shown by changes in community land use patterns and in the economic nature of the community. For example, the extension of community water or wastewater services into a previously undeveloped area of the community may encourage growth in that area and thereby increase the demand for services, which may strain the financial resources of the local government. Mitigation of secondary impacts should be the responsibility of the participating agencies and institutions, and may require cooperative agreements between units of governments.

Step 11: Hold Public Meeting, Inform Citizens (Public Education and Input)

Another public meeting should be held to inform the community of the selected program of improvements. At this meeting, the detailed recommendations and costs can be discussed, and the attitude of the community can be assessed. Any necessary adjustments can be made if the meeting turns up complications that were not previously evident. In particular, the financial impact on the residents of the community and the expected benefits must be presented.

In addition to meetings, community leaders need to use other methods to involve the public. These could include such methods as direct mailings (possibly in water and sewer billings), advertisements in the local newspaper, notices in public places, and the like. This type of public information program in addition to public meetings would demonstrate a good faith effort on the part of community leaders to keep the public informed, and would be an effective public relations program. Public education is extremely important. Unless the citizens understand and support the need for the project, the project may fail due to taxpayer opposition or other factors.

Step 12: Develop Implementation Strategy

The final step in the planning process is to develop an implementation strategy. This strategy is simply an outline and description of how the community intends to have the improvements installed and put into

operation; an "action plan", as it is sometimes called. The implementation strategy should contain all the major actions that have to be undertaken, and the time frame for these actions.

As with any planning process, the step-by-step method described needs to be flexible, and adjustments should be made as new or revised information becomes available or as conditions change. However, if a community follows the process as described, it should end up with a very practical program.

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Part III: Implementation

A. Introduction

This section on implementation presupposes that a community has adopted an implementation strategy. If it has not done so as of this stage of the project, it should prepare an implementation strategy prior to continuing on its improvements program. The process leading to an implementation strategy is described in Part II of this workbook.

The final objective of all the work done to date was to identify the type of improvements that are appropriate and affordable for a community. If the proper procedures have been followed, the community should have chosen the improvements wisely and knowledgeably. It now remains to have these improvements installed and put into operation. This section describes the process that is typically used for this purpose. It is also assumed that the community has a financial plan as well as the implementation strategy.

B. Selecting an Engineer

Most projects of any complexity require the involvement of an engineer. The engineer's function is to prepare designs that meet with local, state and federal requirements, and to assist in quality control during construction. In many cases a community will also utilize an engineer to determine which improvements are appropriate, estimate costs, administer the project, and otherwise act as the community's representative.

In order to practice engineering in Montana (as well as other states) it is required by state law that a person must be duly registered as a Professional Engineer in Montana. An individual becomes a registered engineer by a combination of education, experience, and passing an examination intended to test knowledge of engineering principles. The intent of the engineering registration law is to protect the public by allowing only engineers of demonstrated competence to practice engineering. A list of registered engineers is available from the Montana Professional and Occupational licensing Bureau, Montana Department of Commerce (444-3757).

If you intend to use state and/or federal funds on your improvement project, contact the appropriate agencies before you begin the hiring process. Many

agencies have additional requirements not discussed in this book.

The following is the typical process for selecting an engineer:

1. Public Notice

Notice in journals or newspapers at least 30 days prior to proposal deadlines. The public notice may be used as a request for qualifications (RFQ) which allows interested firms to present in writing their qualifications for the proposed engineering work. The RFQ would be followed by a request for proposals (RFP). This request can be made directly via the public notice.

2. Request for Proposals (RFP)

The request for proposals must include sufficient information on the proposed project to allow the interested firms to make a thorough technical proposal. At a minimum the request should include:

- * scope of project, description of facilities, etc.;
- * scheduling information concerning project work;
- * unique problems;
- * previous studies available;
- * contact person for additional project information; and
- * criteria for evaluation of proposals.

3. Proposal Evaluation

After receipt of the proposals, community officials should rank the proposals and interview those candidates determined to be best qualified to undertake the work. The ranking criteria should be unbiased and uniformly applied to all proposals. Written procedures for evaluation of proposals should be developed. The scope of services provided in the proposals should be similar to allow valid comparisons between potential consultants. Past work record, specialized experience, and ability to meet project schedules are examples of criteria which could be used to rank proposals. Qualifications of the consultant's employees specifically assigned to the proposed project should be provided to insure that adequately trained individuals are utilized. Previous clients with projects similar to the proposed work should be contacted to evaluate the engineer's performance.

4. Interviews

Interviews should be conducted with at least three firms judged most qualified to undertake the project work. Sufficient time should be allowed

to hear the technical presentation by the consulting firm followed by questions from the community's selection committee. Standard written questions should be asked during the interview to allow comparative evaluation of responses.

5. Negotiation and Contract Award

After conducting interviews and evaluating proposals, the community should select the firm best qualified to do the work. At this point, the scope of work and cost should be negotiated. If agreement cannot be reached, negotiations should be terminated and the second best qualified firm contacted for the work. The rejected firm should not be contracted for any renegotiation. All contractual requirements of both parties should be clearly defined and agreed upon. Methods of compensation should be discussed. Lump sum contracts are typically used for design, and a cost plus a fixed fee is most common for construction engineering services. The scope of services should be thoroughly defined. The handling of cost overruns and contract modifications should also be discussed.

This process is intended to be a generalized procedure, since some state and federal agencies or a particular financial program may have their own requirements on selecting an engineer. If a community is working with such an agency, it is imperative to check with the agency on any specific requirements it may have in selecting an engineer.

As with any business or profession, there is a substantial difference in the quality of engineering services between firms. The best way to investigate an individual firm is to inquire about its reputation and performance on previous projects and with other clients. It is suggested that a community check a firm's references before committing to a contract.

C. Design Plans and Specifications

The engineer is responsible for designing a facility that meets the needs of the community. State law requires that all new construction, and any modifications to a public water or sewer system be designed by a professional engineer. The community and the engineer should be aware that there are usually a number of knowledgeable people in the community who can provide information that would facilitate the design. A wise engineer will make use of this knowledge and work closely with the people of the community to prepare a good design.

Although the engineer does the design, any decisions on options or levels of service should be made by the community. An engineering firm should

present at least two or three design alternatives for the community to consider. The engineer's function is to provide the community with the information needed to make the decision, and to provide recommendations.

The community should be well aware of the fact that an engineer is not infallible and can make an error just like anyone else. It is been our experience that some communities have unrealistic expectations of the engineering design, and feel that the engineer should pay for any changes that are necessary during design. Most engineering fees are not structured to allow the engineer to afford this arrangement; and if the community intends to have this requirement, then it should be explicitly stated in the contract. Otherwise the engineer will be held to the standard of performance of other engineers in the same field, and will not be required to be perfect.

At the completion of the design, the engineer will prepare a set of plans, specifications, and bidding documents. These documents (usually called "contract documents") are intended to describe the work to be done on the project, establish the type and quality of construction, and allow contractors to submit competitive bids. The public works staff of the municipality should review and comment on the plans and specifications for a given project before it is put to bid. Clear and concise documents are necessary so that contractors can submit knowledgeable bids.

D. Construction Bids

Bid advertisements are usually published in newspapers serving the community and sent directly to construction trade journals, and distributed to contractors who are qualified in the type of construction appropriate to the project or who express an interest in the project. Normally, projects are advertised for three to four weeks prior to the bid opening. The engineer typically holds a pre-bid conference to explain the project to interested contractors, and is available to answer questions on the project.

At the date and time of the bid opening, the bids are publicly opened and read aloud. Procedures for opening and reading bids are also available from the Associated General Contractors office. After the bids have been read, they are usually taken under advisement so they can be checked for errors as well as to make sure they meet the necessary bid requirements. State law requires contractors to be licensed and to submit payment and performance bonds for the project. It is also advisable to require the contractor to carry adequate insurance to protect the community.

After the bids have been reviewed and checked, the contract is awarded to the lowest qualified bidder, the necessary documents are executed, and a notice to proceed is issued by the community to the contractor.

Some financial programs may have slight variations on these procedures, and it is advised that a community review the program requirements prior to advertising, receiving, and awarding construction bids.

E. Construction

The contractor is responsible for scheduling his construction activities and deciding on the construction procedures to be used. Completing the project within the time specified in the contract documents is the responsibility of the contractor. The contractor typically submits a construction schedule indicating the key milestone events, allowing the work to be completed within the allotted time. Failing to construct the project within the specified time could result in financial penalties assessed against the contractor.

The community should require the contractor to provide payment and performance bonds, as stated previously. These bonds insure that the workers on the project will be paid and that the project will be completed, or the bonds will be forfeited to the community. These bonds protect the community from liens, and insure that the project will be completed.

During construction, the engineer either provides full-time quality control inspection or makes periodic site visits to interpret contract documents for the contractor and to assure that the quality of construction is acceptable. The engineer also acts as the community's representative in dealing with the contractor. Upon project completion, the engineer must verify that the project was built in accordance with the project plans and specifications.

F. Start-up and Final Inspection

At the conclusion of construction, the facility is tested and put into operation; this step is known as the "start-up". During start-up, the community, engineer and contractor inspect all of the facilities and determine if the work is satisfactory. Any corrections or adjustments are noted and are done by the contractor at this time. During the start-up phase, the project engineer and/or the contractor may be required to provide operational assistance in running the new facility.

At the completion of the final inspection and corrections, the community notifies the contractor that it has accepted the project. This relieves the contractor of the responsibility for the project, which then becomes the responsibility of the community. However, most contracts require a one-year guarantee period during which the contractor must repair any defective material or construction. The contractor's performance bond should be

required to cover this one-year period.

Community leaders should make sure that the engineering firm provides, prior to contract close-out, a complete set of "as built" drawings and specifications as well as an operating manual or written instructions for operating the new or modified system.

E. Summary of Implementation

The following list summarizes in order the steps that a community typically goes through to implement a project once an improvement program, financing plan, and implementation strategy have been adopted.

1. Engineer Selection
2. Negotiation of Engineering Agreement
3. Preparation of Plans and Specifications
4. Advertisement for Construction Bids
5. Pre-Bid Conference
6. Bid Opening
7. Construction Contract Award
8. Notice to Proceed Issuance
9. Project Construction
10. Project Start-up
11. Final Inspection and Acceptance
12. One Year Warranty Period

Part IV: Financial Program Process

A. General

One of the most important steps that a community must take in order to complete a water or sewer system improvement is the development and implementation of a sound financial program. In many cases, the development of this program is overlooked in the initial planning stages. This oversight often results in project delays as well as possible additional costs. Obviously, without proper financing, the improvements can not be constructed.

There are two fundamental categories of financing water/sewer systems for communities. These two categories are:

1. Operational financing (including minor repairs and replacement); and
2. Major improvements financing (large scale repairs, replacement of existing systems or new construction).

Operational financing is the day to day funding of the costs to operate the water and sewer systems. Operational financing provides money to pay for system management, billing, maintenance, system depreciation, training, and small scale repairs and replacement. Typically, user fees are used for operational financing. In contrast, major improvements financing is used for expensive, large scale, long term improvements. Major improvements financing typically involves complex combinations of grants, loans, bonds, and user fee increases to pay for these large scale projects.

This workbook focuses on major improvement financing. (Although operational financing is not addressed in detail in this workbook, local governments are encouraged to comprehensively examine their operational funding periodically once or twice a year. Essentially, this examination should tell decision makers if their user fees are high enough to pay ongoing expenses plus depreciation. It should help the governing body identify cash flow problems and make budgetary changes. The examination can signal the need for a user fee increase. The services of an experienced bookkeeper, finance specialist or CPA can be invaluable for this examination.)

The basic steps that should be followed for developing the financial program that is most appropriate and economical for implementing a major water or

sewer project are illustrated in Figure 1. The exact process will undoubtedly vary to some degree for each specific project since the order in which various steps are conducted will depend on the community's situation and needs.

The following narrative gives an overview of the basic financing elements that are necessary for each of the steps depicted in Figure 1.

B. Financial Program Steps For Major Improvements

1. Finalize Project Cost Estimates

a. Evaluate Alternatives

A key element in the implementation of a water or sewer improvement is the evaluation of alternatives and the selection of the most cost-effective and practical option. The analysis of the costs for each alternative should include initial capital costs, interim financing costs, and annual operation and maintenance costs. Once these costs have been estimated, public meetings with local citizens and business leaders should be held to obtain comment. In many instances in the past, communities have made the mistake of not obtaining public input before choosing an alternative or deciding whether or not to proceed with a project. This public input phase can be very beneficial in the early stages. A comprehensive public education process must be established.

b. Select Preferred Alternative

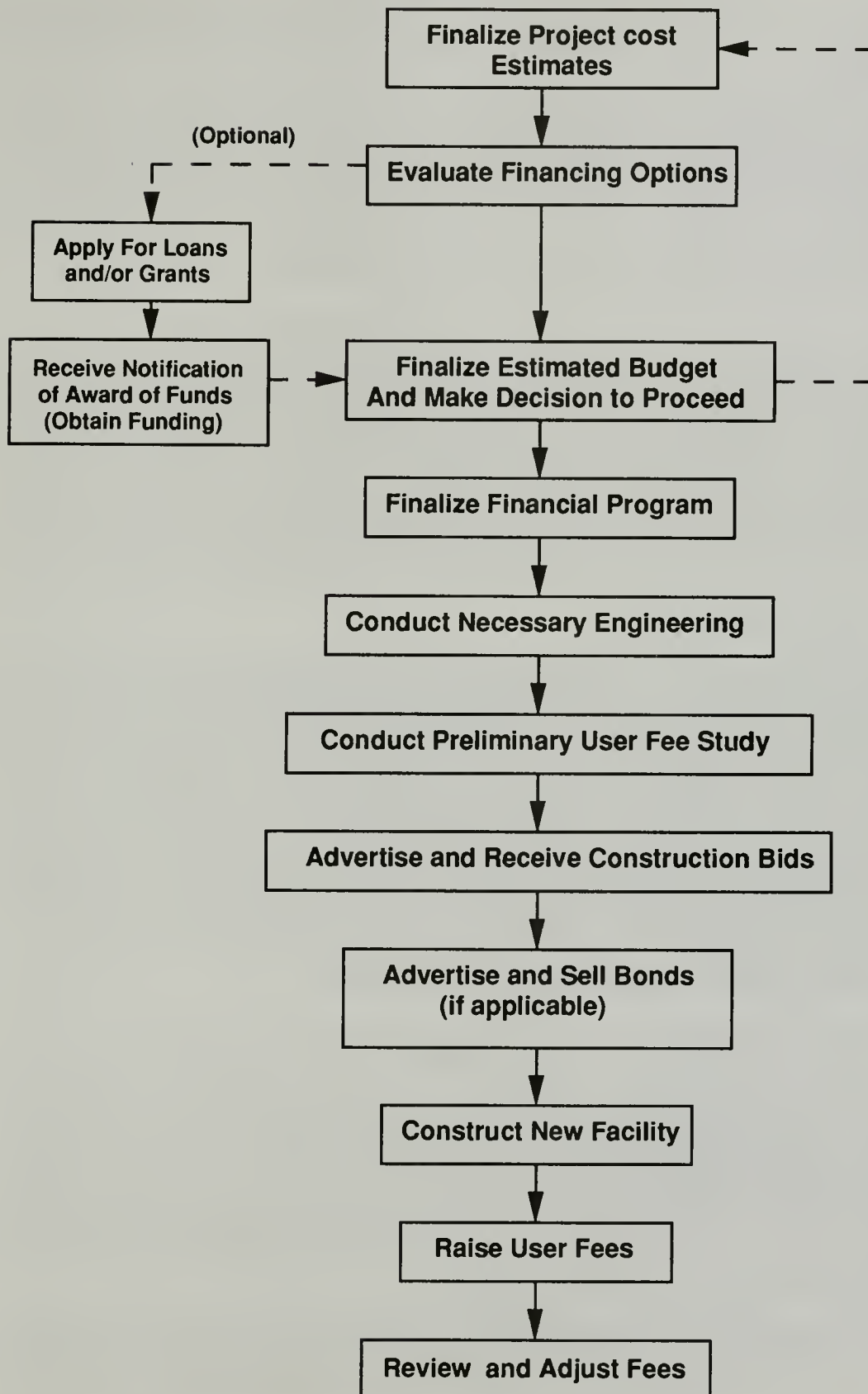
Once alternative costs have been identified and initial public input has been obtained, the governing body with the assistance of its staff and/or consulting engineer should select the preferred alternative. The capital and annual costs of this alternative should then be finalized. Finally, local officials should conduct a second public meeting to inform citizens of the selected alternative and the corresponding costs that can be anticipated.

2. Evaluate Financing Options and Make Decisions to Proceed

a. Capital Costs

Once the capital and annual costs of the project improvements have been estimated, the next key step is to evaluate the alternate options for financing the capital costs. Various options that are most often used for this purpose include: 1) utilizing a community reserve fund that has been accumulated with existing user fees or taxes; 2) selling bonds; 3) obtaining grants and/or loans from state and federal agencies; and 4) a combination of the three previous

**Figure 1: Financial Program Process
For Major Improvements**



(NOTE: Public education and involvement must occur during each of the above steps.)

options. A detailed discussion of the procedures, advantages and disadvantages of these financing options are included in Parts V and VI of this workbook.

In many instances, communities apply to one or more state and/or federal agencies for loans and/or grants to offset the anticipated increased costs to local users of the proposed improvements. There are several loan and grant programs currently available to local governments for improving, rehabilitating or replacing sewer and water systems. A discussion and overview of the primary programs are included in Part V.

Once a community has been notified whether or not they were successful in obtaining loans and/or grants, the final decision can be made on how the total capital cost should be financed. Many communities have used the following methods: 1) a combination of loan and a grant from two agencies; 2) a loan or grant from an agency to finance part of the project and the proceeds from a bond sale for the remainder of the necessary funds; or 3) using the proceeds from a bond sale for the full amount of the project capital costs. Note that debt in the form of loans or bonds is typically repaid by raising user fees.

b. Local Revenue Options

Once the community has finalized the method by which capital costs are to be financed, the next step is to evaluate the most applicable options for obtaining the revenue necessary to pay for the capital expenditures that must be financed locally. Typical methods used by communities for this purpose are: 1) user charges based on water consumption or type and size of dwelling; 2) general taxes based on the mill levy; and 3) special improvement districts based on property size. A detailed discussion of these options and their respective advantages and disadvantages is given in Part VI. Once the decision on how to raise the local funds is made, individual assessments should be estimated.

c. Public Meetings, Public Education, and Decision

The final step involved for the community officials prior to making a decision on whether to proceed any further with the project is to hold an additional meeting to present costs and circumstances of the project to community citizens. The information presented to the public should include the specific need for the project and a description of the proposed improvements; the estimated costs to finance the capital expenditures, and the method by which the local funds will be obtained; and the estimated increase in annual user charges or taxes required to finance the capital costs and operation and maintenance cost of the proposed facilities.

Many communities find that few citizens attend public meetings. If this is the case in your community, get the word out by making presentations to civic

groups, contacting the media, and mailing out special notices.

Once the necessary public input has been obtained, local officials should decide whether or not to proceed with the project. If a decision is made not to proceed, local officials should re-evaluate the project's components and costs, and examine the consequences to the community of not doing the project. If local officials obtain favorable comments from the public, the project should proceed to the final implementation phase.

3. Finalize Financial Program

a. Long- and Short-Term Financing

The initial step required to finalize the project's financial program is to decide on the method and schedule for obtaining funds for the capital investment (usually referred to as the long-term financial requirements). Once this schedule has been finalized, the interim or short-term financing requirements should be identified. Short-term financing is used by local governments to meet financial commitments from the time the initial planning and engineering tasks have begun until the long-term funds have been procured at the local level.

The amount of short-term funds required varies appreciably from project to project, but usually depends on the long-term financing method that is used. In most instances, short-term financing will be required for the preliminary engineering work and the preparation of cost estimates. In addition, the community may require the assistance of legal and financial counsel, which would also be paid for by short-term financing. The most common sources of short-term financing for communities are: 1) reserve funds; 2) registered warrants; 3) short-term government notes; 4) revenue sharing funds; 5) local planning funds; 6) Department of Natural Resources grants and loans (available for some projects); and 7) Department of Commerce "INTERCAP" loan program. A more detailed analysis of these financing methods is included in Part V.

b. Creation of Special Districts (if applicable)

Once the short- and long-term financing programs and cash flow requirements have been finalized, the next step is to create a special district if necessary. Special districts are typically formed if an improvement is being made to benefit a specific area of an incorporated community or to benefit a group of users in an unincorporated area.

The most common types of special districts include Special Improvement Districts (SIDs); Rural Improvement Districts (RIDs or RSIDs); and county water and sewer districts. The procedures for forming such districts and their

uses are discussed in greater detail in Part V.

When water and sewer improvements are planned to benefit an entire community and a revenue bond is to be used to finance the improvements, it is generally not appropriate to create a special district. This is usually the case for most community water and sewer improvement projects. In rural areas and in unincorporated communities, the formation of a county water and sewer district is often the preferred approach.

c. Special Consideration - Paying Prevailing Wage

When establishing a financing plan for a water or sewer system, local governments should be aware of the implications of the two "prevailing wage laws" (the Federal Davis-Bacon Act and the Montana Little Davis-Bacon Act). Both of these laws require local governments to pay contractors the prevailing wage for public contracts. For federally funded projects, the U.S. Department of Labor determines the prevailing wage. For State of Montana funded projects, the Montana Department of Labor makes the determination.

The Montana Supreme Court has ruled that local governments are liable for the difference between the amounts paid to workers and the prevailing wage if the local government failed to require the private contractor to pay the prevailing wage. (David Hunter, Commissioner, Department of Labor and Industry vs. City of Bozeman, 42 State Reporter, May 30, 1985.) Thus, local governments should:

1. plan to pay the appropriate wage scale and factor this amount into overall project costs; and
2. make sure that the local government's contract with the private contractor requires the contractor to pay the appropriate wage scale.

4. Conduct Final Engineering, and Plans and Specifications

Once the financial program has been prepared and any necessary special districts have been created and approved, the community should retain a qualified professional engineer to prepare the final design, plans and specifications on the proposed improvements. It is very important for the community to make sure that all district formation procedures (if applicable) have been completed before instructing an engineer to proceed with this phase. In some instances in Montana, communities have had an engineer complete the design phase prior to forming the district. The formation of the district was subsequently rejected by the property owners. The community was then liable for a substantial engineering fee, and had no legal means of obtaining the necessary funds to pay the engineer. This potential hardship can be avoided if the district is created before the final design phase is begun.

Once the engineering design has been completed, the community must submit and obtain approval of the plans and specifications from the Montana Department of Health and Environmental Sciences, Water Quality Bureau. These plans and specifications must also be signed and approved by a professional engineer who is registered in Montana. Prior to submission, the community should conduct a thorough review of the plans and specifications to make sure that all improvements have been designed and located to satisfy the community's needs.

5. Conduct Preliminary User Fee Study

a. General

In order to finance the capital expenditures and annual operational costs of any water and sewer system, a user charge system and corresponding rate schedule must be developed and implemented. According to Montana Public Service Commission (PSC) requirements, all rates (fees) for municipal water and sewer service must be established so that all users pay for their proportionate use of the system. All municipal rate increases must be approved by the PSC unless one of the following two conditions prevails: 1) the rate is instituted to finance an improvement that is mandated by state and/or federal regulatory agencies to comply with federal drinking water or wastewater discharge standards; or 2) the rate increase represents less than a 12 percent increase over the previous rate. Unlike municipalities, county water and sewer districts are not subject to PSC regulations.

b. User Fee Study (Rate Study)

In most cases, it is recommended that a user fee (rate) study be conducted by local officials, financial consultants, and/or consulting engineers at the same time the final engineering plans and specifications are being prepared. The user fee study should evaluate the number of users, proposed budget including separate breakdowns for financing capital improvements, operation and maintenance costs for treatment facilities, operation and maintenance costs for either the sewage collection or water distribution system, whichever is applicable, and the administrative costs for the project. Based on these estimated annual expenses, alternate user fee systems and corresponding user fees should be evaluated. In most cases, user fees for water and sewer systems are assessed by one of the following methods: 1) a varied rate based on the volume of water used by each residential and commercial establishment; 2) a flat rate for each consumer; or 3) a combination of the two methods in which most of the users (typically the residential users) pay a flat rate and the larger users (typically commercial and industrial users) pay a varied rate depending on their use of the system. To conserve water and reduce system operating costs, a rate based on the volume of water used is the preferred approach (#1 above).

c. Finalize User Fee Structure

Once the various alternate user fee systems and corresponding fees have been calculated and revised by local officials, a meeting should be held to inform the public of the alternate fee systems that are being evaluated as well as the actual user fee increases contemplated. In addition to meetings, other methods of educating the citizens about the need to raise fees should be used. After completion of the fee study and public comment period, local officials should select the fee system that is most acceptable and appropriate.

The final step involved in the rate assessment process is to obtain PSC approval of the recommended user fee system and rate schedule if your community is a municipal government and the increase is more than 12 percent. This procedure varies depending on the situation, but usually requires notification of the proposed rate increase to each user, followed by a public hearing. It is recommended that all municipalities contemplating rate increases contact the PSC during the initial fee study process to determine the exact procedures appropriate for their specific situation. The Public Service Commission is located at 1227 Eleventh Avenue in Helena. Their telephone number is 444-6188.

d. Raising User Fees

Once the user fee increase has been approved by the community and the PSC (and the Water Quality Bureau, if a State Revolving Loan is being used to finance the project), the new fees should be put into effect when the construction of the improvements is begun.

6. **Selling of Bonds**

a. General

Four types of bonds are most often utilized by Montana Communities to provide long-term financing of water and sewer improvements. These include: 1) general obligation bonds; 2) revenue bonds; 3) special assessment bonds; and 4) refunding bonds. The specific procedures for advertising and selling bonds for municipal water and sewer projects differ for each type of bond, and are summarized in Part V of this workbook. As also discussed in Part V, there are several consultants in the state who are experienced in bond marketing procedures, and it is recommended that all communities which do not have financial specialists on staff should retain a qualified bond counsel to assist in the bond sale process.

b. Bond Sale and Delivery

In most instances, funds derived from the sale of bonds will be delivered to the

community within 30 to 45 days after bids have been received on the bonds. The community will then be able to use these funds as needed, while investing the remainder of the funds until required. The income from this investment is typically used to partially offset the initial capital investment required or to assist in financing the interim (short-term) costs of the project. Funds obtained from this investment are also frequently placed in the water or sewer budget and used to defray annual and operating costs of the system. The primary restriction on the use of these funds is that they must be utilized in the same budgetary category as the bond sale they derived from. (For example, if the improvement project being considered is for the water system, investment funds must be used for water-related expenses. They cannot be used for sewer- or street-related expenses.)

It is usually best to sell bonds at one of two points; immediately prior to the start of the final engineering phase, or immediately after construction bids have been opened. The primary advantage of selling bonds during the engineering phase is that funds can be obtained before major expenses are incurred. As a result, the short-term financing requirements are minimal. However, the primary disadvantage of this option is its lack of flexibility. If the facility design changes in cost estimates, a second set of bonds may have to be sold. The conservative approach is to sell bonds after the construction bids have been opened.

If bonds are sold after construction bids have been received, the amount of bonds sold will reflect the actual project costs quite closely. However, higher short-term financing costs will be incurred than if the bonds were sold prior to the start of the design phase. Since both methods of timing bond sales have been used with success over the past several years, it is recommended that each community discuss these options with the consultant engineer and financial specialist before a final decision is made.

7. Review and Adjust User Fee Structure

At the conclusion of the construction and start-up of the new facilities, it is recommended that the original budget estimate prepared during the design phase be re-evaluated and updated. Based on these updated costs, user charges should be adjusted to reflect the new budget. In many cases, final budget figures may vary considerably from those originally estimated. This is particularly true for projects involving large water and wastewater treatment facilities.

Part V: Loan and Grant Programs

A. Introduction

One of the primary sources of funding available to local governments wishing to undertake large capital projects such as water or sewer facilities has been federal and state financial assistance. These funds have traditionally been used to underwrite major portions of projects through the issuance of grants or loans which may be repaid at terms favorable to most communities. Most of these programs require a local matching share which is most often obtained by issuing local government bonds. In many cases, the availability of funds will dictate the arrangement or timing of projects, since low-priority projects may be moved ahead of schedule to take advantage of available assistance. Experience has shown that delaying projects in hopes of obtaining federal or state assistance presents a large risk to a community since construction costs will most likely increase in the interim. Federal or state aid should not be anticipated in the preparation of project financing unless the availability of such funds is assured. Funding programs often require that funds be appropriated during sessions of Congress or the state legislature, and in almost all cases the appropriated funds are less than the amount requested by local officials. Some requirements attached to the funding programs (e.g., administrative procedures, minimum wage rates) may substantially increase project costs, making the assistance less attractive than it originally seemed.

In the past, significant amounts of federal and state aid were available for financing new capital facilities, including water and sewer projects. However, in recent years the amount and level of financial assistance for projects such as water and sewer facilities have been dramatically reduced. Currently, the primary federal programs available for water and/or sewer system improvements include HUD Community Development Block Grants, administered by the Montana Dept. of Commerce; the Farmers' Home Administration Water and Waste Disposal Loans and Grants; and the State Revolving Fund (SRF) Loan Program, administered by the State Department of Health and Environmental Sciences, Water Quality Bureau. The purely state programs for water or sewer system funding include the Department of Natural Resources and Conservation's Water Development and Renewable Resources Development Programs, the Montana Coal Board Grant and Loan Program, and the INTERCAP Loan program administered by the Montana Department of Commerce.

The following narrative is intended to provide local government officials with

a clear, concise summary of the federal and state assistance programs that may be utilized for improvements to community water or sewer systems. The purpose, type of funding, eligibility requirements, application procedures, and the ranking and approval process for each program will be emphasized. This chapter is organized into separate sections that identify programs applicable for water and/or sewer projects, and water or sewer projects only. Be aware that agencies make changes in programs. Always contact the agency staff to get complete information.

B. Water and/or Sewer Projects

1. Community Development Block Grant Program (CDBG)

a. General

Montana's Community Development Block Grant (CDBG) Program is a federally funded competitive grant program designed to help communities of less than 50,000 population with their greatest community development needs. The program was established by the federal Housing and Community Development Act of 1974. All projects must principally benefit low and moderate income persons. The basic categories for local community development projects are:

1. economic development;
2. housing; and
3. public facilities.

The Montana Department of Commerce took over administration of the program from the U.S. Department of Housing and Urban Development (HUD) in 1982. From 1982 to 1989, Montana's CDBG Program has provided almost \$45 million for more than 120 community projects across the state. The housing and public facilities categories are administered by the Department's Local Government Assistance Division.

Each year Congress appropriates money for the federal CDBG Program nationally. Over the last ten years this has been about \$3 billion a year, although this has been gradually reduced by federal budget cuts in recent years. Seventy percent of the money goes to cities over 50,000 population (such as Billings and Great Falls) on a formula basis. The remaining CDBG funds go to each state for award to smaller communities on a competitive basis.

Before the Department of Commerce begins each year's program, it distributes copies of the proposed CDBG guidelines to all of Montana's towns, cities, and counties, as well as a large number of interested citizens, to solicit their comments. After holding at least one public hearing and considering any

comments, the guidelines are formally adopted.

During the past few years, 25% of each year's allocation has been reserved for economic development projects. The balance has been reserved for grants for housing and public facility projects which are awarded on the basis of an annual grant competition conducted in the fall of each year. The maximum grant request for housing and public facility projects is currently \$375,000. The CDBG funds for the fall grant competition are divided between the two categories based on the percentage of the funds requested for each category. For example, if 60% of the funds are requested for public facility projects, then 60% of the available funds will be reserved for that category, and the public facility applications will compete for that amount.

For 1991, \$4,262,235 will be available for the housing and public facility categories. Historically, the demand for CDBG funds has been about twice the available amount.

b. Eligibility Requirements

Eligible applicants are limited to general purpose local governments: towns; cities; and counties. Local governments can apply on behalf of private businesses, private nonprofit corporations, or special purpose governmental agencies such as a water or sewer district. In all cases, the local government assumes ultimate responsibility for administration of the federal funds and compliance with all federal and state requirements.

A complete listing of eligible activities is included in the Montana CDBG Program Application Guidelines available from the Department of Commerce. Under federal law, eligible public facility activities include "the acquisition, construction, reconstruction, or installation of public works facilities (except buildings for the general conduct of government), and site or other improvements.

In past years, the most competitive public facilities projects have been for water, sewer, and solid waste projects. Since 1988 some special purpose projects designed to principally serve low and moderate income persons were also funded, including a Head Start Center, a mental health center, a home for abused children, and a senior center.

c. Application Procedures

Figure 2 summarizes application procedures. Each local government can apply for either a housing project or a public facility project each fall. (In addition, each local government can apply for up to \$375,000 in economic development funds, without a cap on the number of grants received. Applications for economic development projects can be submitted continuously once the year's

guidelines have been adopted, as long as funds are available.) The major application requirements include:

* Community Development Needs Assessment

Congress requires each CDBG recipient to "identify its community development and housing needs, including the needs of low and moderate income persons, and the activities to be undertaken to meet such needs." The requirement is intended to be an abbreviated planning process. Each community should consider its overall needs for economic development, housing, and public facilities before it selects a project for a CDBG application. A summary of the community's needs assessment process must be included in the application.

There is no one way to approach doing a needs assessment. Some communities assign the task to an existing planning board. Others set up a special committee to work on it. Others hold special town meetings or do opinion surveys to get citizen ideas on needs or possible projects to improve the community. The Department of Commerce has a publication, The Community Development Needs Assessment Process, which includes ideas on how to approach doing the needs assessment.

* Citizen Participation

This requirement is closely related to the needs assessment requirement. Congress places strong emphasis on involving the public in the preparation of CDBG applications. Under Montana's CDBG Program, two public hearings are required before a local government submits a CDBG application. The first is usually held as part of the needs assessment process before a project is selected. The first hearing is designed to solicit public comments on local needs, and to tell people about the CDBG Program and how it might be used to deal with some of the problems that have been identified. The second public hearing is held after the CDBG application has been prepared, but before it is submitted to the Department of Commerce. The second hearing is intended as an opportunity for local citizens to hear about the project the community is proposing and how it might affect them, and to get public reaction to the project. For example, if a water or sewer project is being proposed, local officials should discuss any potential increases in user rates or tax assessments that may result.

Summaries of the comments made at the hearings are included in the CDBG application. In addition, some communities also hold less formal town meetings or meet with local groups such as service clubs or senior citizen organizations to encourage additional public involvement.

* Benefit to Low and Moderate Income

The CDBG Program is intended by Congress to principally benefit persons of low or moderate income. Each CDBG project must demonstrate that at least 51% of the project's beneficiaries are low and moderate income (LMI).

For public facility projects this is accomplished by assuring that at least 51% of the families that will be served by the project are LMI. For example, this can be done by making sure that at least 51% of the residents in the geographic area of a water or sewer project are LMI. This can be documented through census data or by doing local income surveys. Benefit to LMI families for a community-wide project can be increased by paying special assessments or hook up charges that otherwise would have to be paid by the LMI families. The LMI requirement can also be met by using CDBG funds to assist a facility that will primarily serve LMI persons, such as a Head Start Center or a senior citizens center. The Department of Commerce has a booklet, Documenting Benefit to Low and Moderate Income Persons, which discusses how to comply with this requirement.

* Budget

Grant recipients are allowed to use up to 18% of the total grant to cover administrative costs. In most cases, the administrative percentage for public facility projects averages from 5 to 10%. Applicants must submit a detailed budget with a narrative explanation of the projected costs. Budget forms are available from the Department of Commerce.

There is no minimum amount that can be requested. However, some costs of CDBG administration are relatively fixed. Communities may find that with a small grant request (under \$75,000), the 18% ceiling on administration costs will mean that the local government will have to absorb some of the administrative costs.

Other application requirements are described in the Montana CDBG Program Application Guidelines which are revised for each year's program. Each spring the Montana Department of Commerce, CDBG staff, normally conducts five one-day application workshops around the state for local officials and any other interested persons to explain the application process, and provides application materials for the next grant competition.

Although the program does have its share of "red tape" attached to it, no community should be discouraged from applying. Past grants to some of Montana's smallest communities demonstrate that the capacity to compete and successfully administer a CDBG project is not dependent upon a community's size or financial resources. Copies of past successful grant applications can be loaned to applicants to help them further understand how to apply for CDBG funds.

d. Ranking and Approval

Review teams composed of at least three Department of Commerce staff are appointed to review each housing or public facility application and compare them with the other applications submitted for that category. Each application's response to the adopted ranking criteria for that category are considered and scored according to the established scoring system. At the conclusion of the ranking process, written summaries of the review team's comments and conclusions and the recommended ranking scores are submitted to the Department of Commerce Director for his consideration. The Director makes the final decision on grant awards. Each applicant can request a copy of the detailed written summary prepared by the Department's staff. For water, sewer, and solid waste projects, some criteria are reviewed and scored by the staff of the Department of Health and Environmental Sciences.

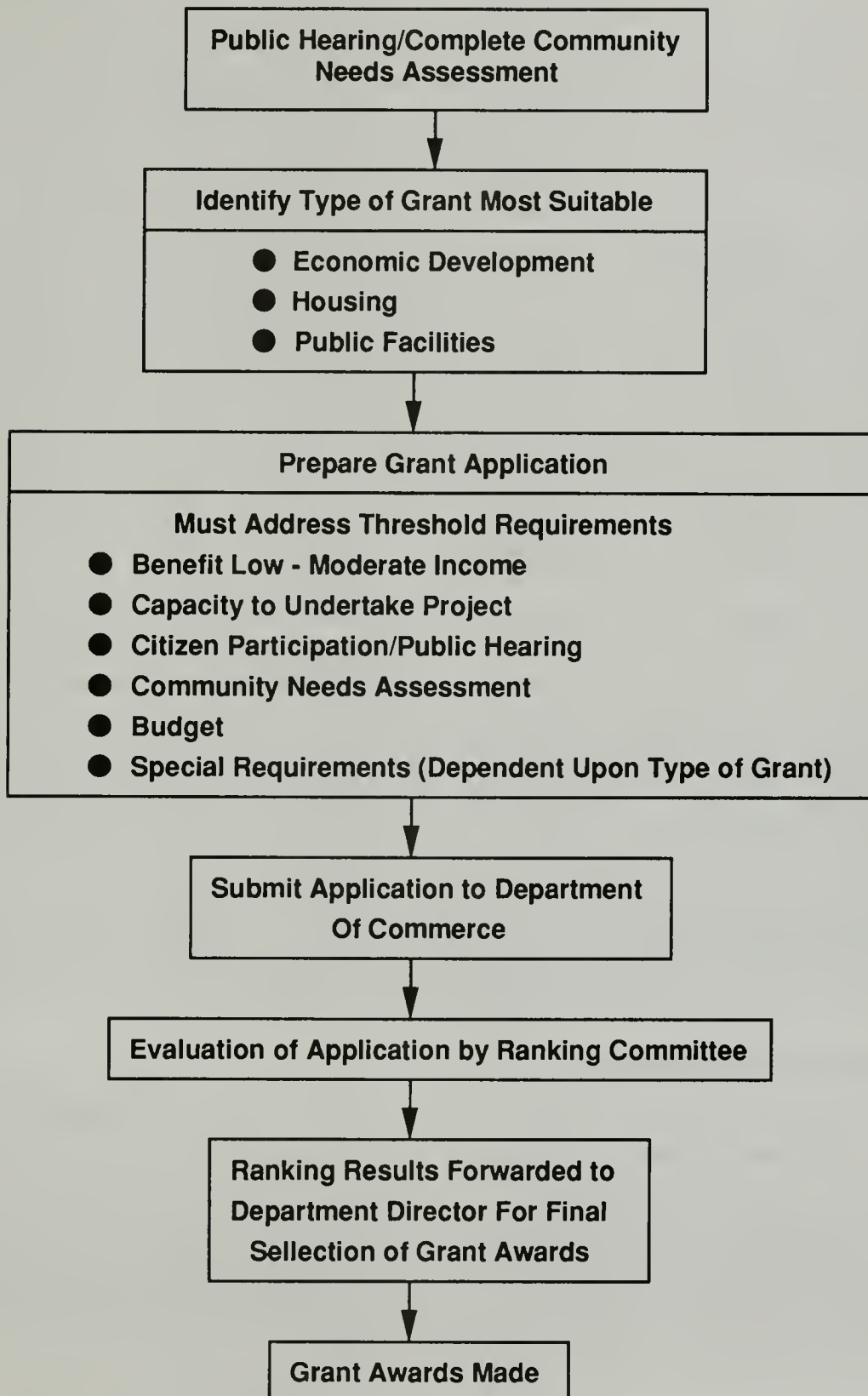
e. Program Contacts

For more information about the program or for copies of program guidelines and application materials, contact:

Community Development Block Grant Program
Local Government Assistance Division
Montana Department of Commerce
Cogswell Building, Room C-211
Capitol Station
Helena, MT 59620
(406) 444-2488

Interested persons can also ask to be placed on the mailing list for the program in order to receive copies of the guidelines and announcements of application workshops.

Figure 2: Community Development Block Grant Program Application Procedures



2a. FmHA Water and Waste Disposal Loans and Grants ("Direct Program")

a. General

The Farmers Home Administration (FmHA) has established the Water and Waste Disposal Loan and Grant program to provide financial assistance to communities of up to 10,000 population for needed water and/or sewer facilities. These funds may be used for the installation, repair, improvement or expansion of water or sewer facilities where other means of financing are not available. Eligible applicants may receive assistance in the form of grants or loans. Grant funds may be available to underwrite up to 75 percent of eligible facility costs; however, grants may not be used to pay interest on loans, operation and maintenance costs, or to acquire or refinance existing systems. Grants are made only when necessary to reduce the average yearly charges to users of the proposed facilities to a level determined to be reasonable by the FmHA. Loans with interest rates based on current market yields for municipal obligations are also available to communities. Loans may be made at lower rates if certain population and median income requirements are met. Statutes have not established maximum loan amounts, but repayment must occur within 40 years from the date of issuance.

Interim financing from commercial sources is normally used during construction for FmHA loans, and costs to communities are reimbursed by FmHA at the completion of the project. If interim financing is not available or if the cost of such financing is less than \$50,000, multiple advances may be made to the community based on the progress of construction activities. Funding for this program is on-going, and loans are approved as the FmHA requirements are met. Portions of the state allocation not obligated reverts back to the National FmHA office (50% by April and 100% by August). If proposed projects arise between these dates, competitive requests for funds can be made to the national office for expenditure prior to the beginning of the new federal fiscal year (October 1). Funds are allocated to states based upon rural populations and the number of households with incomes below the poverty level. This program requires no matching funds from applicants.

b. Eligibility Requirements

Eligible applicants include public entities such as counties, municipalities, special purpose districts or authorities, water/sewer districts, cooperatives, associations, non-profit corporations, and federally-recognized Indian tribes for rural areas and communities of up to 10,000 residents. Applicants must be unable to finance the proposed project from their own resources or from any other source of commercial credit, must be able to legally finance, operate and maintain the proposed facility, and must be financially sound to ensure that the facility is properly managed and the debt repaid.

Projects eligible for grant or loan assistance through this FmHA program include those that construct, repair, improve or expand rural water or wastewater facilities, including individual components of such systems. Program funding assistance may also be used to acquire water supplies or water rights, or pay legal and consulting fees or other costs related to the development of facilities. Grants and loans may also be used as a source of joint funding with other suitable public programs identified by the FmHA.

c. Application Procedures

Applicants eligible for financial assistance in the form of grants or loans are initially required to file a pre-application with the local or district FmHA office from which assistance may be obtained. The district offices, which are located in Billings, Great Falls, Missoula and Glasgow, can provide technical assistance in the preparation of the pre-application forms. Once a pre-application is approved by the District Director and Chief, Community and Business Programs, State Office FmHA, Bozeman, a meeting with the applicant, the applicant's engineer and the applicant's attorney is conducted to assign the tasks required for a full application. After the pre-application and full application forms (including an environmental assessment) have been reviewed by the District Director, the application package is forwarded to the State FmHA office in Bozeman for review, processing, and funding approval.

d. Ranking and Approval Process

There is no ranking procedure for project applicants. Program rules state that priority will be given to governmental entities with less than 5,500 residents; to projects that will enlarge, extend or modify an existing facility to provide more efficient and economic service to rural residents; and to projects serving low income communities.

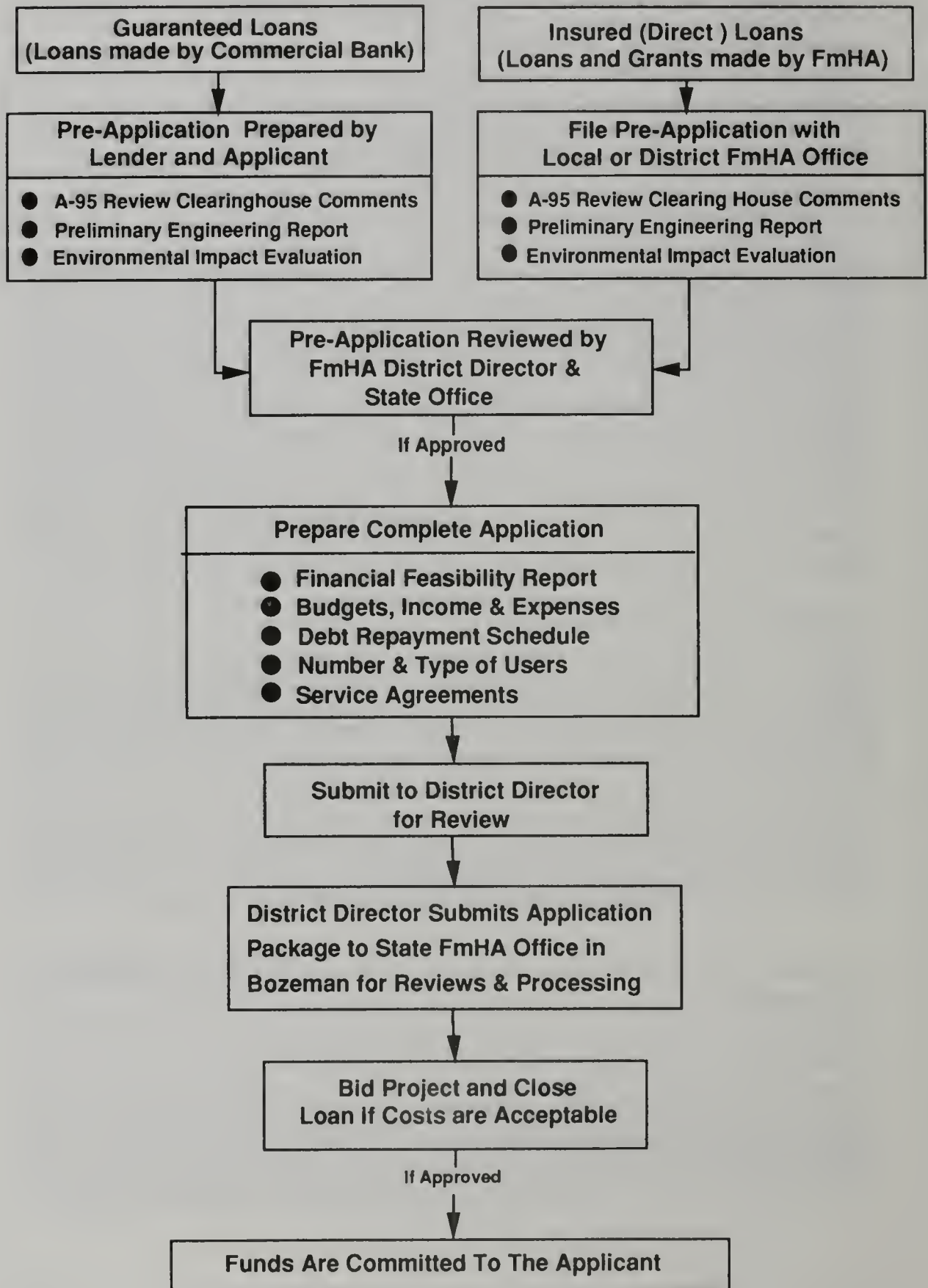
It usually takes between 30 and 90 days for applications to be approved or disapproved. Typical procedures associated with the FmHA Water and Waste Disposal Loan and Grant Program are depicted in Figure 3.

2b. FmHA Water and Waste Disposal Guaranteed Loans ("Guaranteed Program")

a. General

The purpose of the FmHA Community Program (CP) Guaranteed Loan Program is to improve, develop, or finance water or waste disposal and other essential community facilities in rural areas. This purpose is achieved through the guarantee of quality loans that will provide lasting community benefits.

**Figure 3: FmHA Water and Waste Disposal
Loan & Grant Program Application Procedures**



Facilities financed through FmHA guarantees must primarily serve rural residents. For water and waste disposal facilities, the terms "rural" and "rural area" will not include any area in any city or town with a population in excess of 10,000 inhabitants according to the latest decennial census of the United States.

Guaranteed loans may be used to construct, extend, or otherwise improve water or waste disposal and other essential community facilities. The interest rate for these loans will be negotiated between the lender and the borrower and may be fixed or variable. Interest rates will be those rates customarily charged to borrowers in similar circumstances and are subject to FmHA review.

Farmers Home Administration will not guarantee any loan made with the proceeds of any obligation the interest on which is excludable from income under Section 103 of the Internal Revenue Code of 1954, as amended (IRC). Also, any loans for water and waste that involve FmHA grants may not be guaranteed. Grants made by other agencies can be used with the guaranteed loan program and joint funding is also encouraged.

The maximum guarantee is 90 percent of the total loan. However, normally the guarantee will not exceed 80 percent unless extraordinary circumstances exist.

b. Eligibility

To be eligible for a guaranteed loan, the applicant must be unable to obtain the required credit without the CP loan guarantee from private or cooperative sources at reasonable rates and terms for loans for similar purposes and periods of time. The applicant must certify that credit is not available without the guarantee and the lender must certify that it would not make the loan without the guarantee. Otherwise, the eligibility requirements are the same as those for the insured (direct) loan program.

c. Application Procedures

The applicant must first contact a lender and request a loan. If the lender determines it will not make a loan without a guarantee, the lender contacts FmHA. Both the lender and the applicant prepares the pre-application. Once the pre-application has been presented to FmHA, the process is very similar to the processing of the insured (direct) loan.

d. Ranking and Approval Process

This process is the same as for the insured (direct) loan program except there is no FmHA grant involved.

e. Program Contacts

Pre-application and application forms, in addition to other information about the FmHA Water and Waste Disposal Loan and Grant Program, and guaranteed loan program may be obtained by contacting:

Mitchel R. Copp, Chief Community & Business Programs
Farmers Home Administration
P.O. Box 850
Bozeman, Montana 59771
Telephone: (406) 585-8175

3. **Montana Coal Board Grant and Loan Program**

a. General

The Montana Coal Board provides financial assistance in the form of grants or loans to enable local jurisdictions to adequately provide for the expansion of governmental services and/or facilities that are needed as a direct result of coal development activities. It is the intention of the Coal Board to assist local efforts in planning for and meeting the needs for public services such as water or sewer facilities. Grants are available to fund up to 80 percent of the costs of main water and/or sewer lines, storage and treatment facilities, and other system components that the Coal Board determines to be essential to the function of such systems. Grant funds may be committed for more than one year for a single project, provided funding does not extend for more than ten years and does not exceed reasonable revenue expectations. No state agency or governing body of a federally-recognized Indian tribe may receive grants exceeding seven percent of the annual allocation to the Coal Board. Loans may be awarded to eligible applicants from the same source as the grants. These loans must be repaid within 20 years at an interest rate determined by the Coal Board, and these must be used or committed for use within one year of the loan approval. No loan will be approved by the Coal Board if money used to repay the loan is to be derived from property taxes. Available funding for Coal Board grants and loans is projected to be \$2,948,867 and \$2,946,957 for FY 1992 and FY 1993, respectively.

b. Eligibility Requirements

Applicants eligible to receive financial assistance under the guidelines of this program include local governmental units, state agencies, governing bodies of federally-recognized Indian tribes, improvement districts, and water and sewer districts. Each of these governmental units must represent an area that is experiencing impacts from coal development. Coal Board financial assistance may be used for the planning, construction, reconstruction, expansion and

maintenance of a water and/or sewer system that serves any new or existing residential area directly impacted by coal development. Counties and municipalities may utilize grants to pay for the expenses of rural or special improvement districts. Use of loans is somewhat limited by the fact that property taxes may not be utilized for repayment; loans must be retired from user fees.

c. Application Procedures

Prospective applicants are required to submit a pre-application package to the Coal Board Administrative Staff 30 days before any of the four to six scheduled Coal Board meetings held throughout the year. The pre-application must include a complete description of the proposed project, a preliminary engineering report with estimated project costs, the estimated project completion date, documentation of the project's relationship to coal development, and documentation of the applicant's legal and financial ability to undertake and manage the proposed service or facility. Once the pre-application proposal is received, it is reviewed by a committee of Department of Commerce staff and other appropriate agencies and consultants. Any comments received during the review process are used by the Administrative Officer of the Coal Board to formulate his recommendations. At the next Board meeting, the applicant makes a formal presentation after which the Administrative Officer makes his recommendations. After a review of all pre-application information, the Board takes official action on each proposal which will be either approved, denied, or tabled. If the pre-application is approved, the applicant is required to submit the final full application forms 30 days before the next scheduled meeting. The Board may require additional information to be submitted with the full application, including local government budgets, documentation of local efforts to resolve coal development impacts, documentation of local planning efforts and citizen participation, and firm bids or estimates of project costs. Applicants are then required to present the final proposal to the Coal Board at their next scheduled meeting where final action will be taken. Technical and procedural assistance regarding application requirements is available from Coal Board administrative staff and Department of Commerce personnel.

d. Ranking and Approval Process

Although the Coal board has no formal ranking system, it does base its awards on the following four guidelines:

* Need

What assistance is required to eliminate or reduce the severity of the problem affecting the health, safety, or welfare of the public?

* Severity of Impact

What has been the rapidity of growth and the subsequent expansion of the necessary services, and to what extent have community residents been affected by the large scale coal development?

* Availability of Funds

Are there sufficient Coal Board funds available to grant awards requested?

* Degree of Local Effort

What funding sources can the local governmental units pledge to the project based on their indebtedness and current taxing efforts?

After the Coal Board has evaluated the final application proposal and its relationship to the four award guidelines, the Board takes action on the final application by designating the amount of assistance and any contract stipulations.

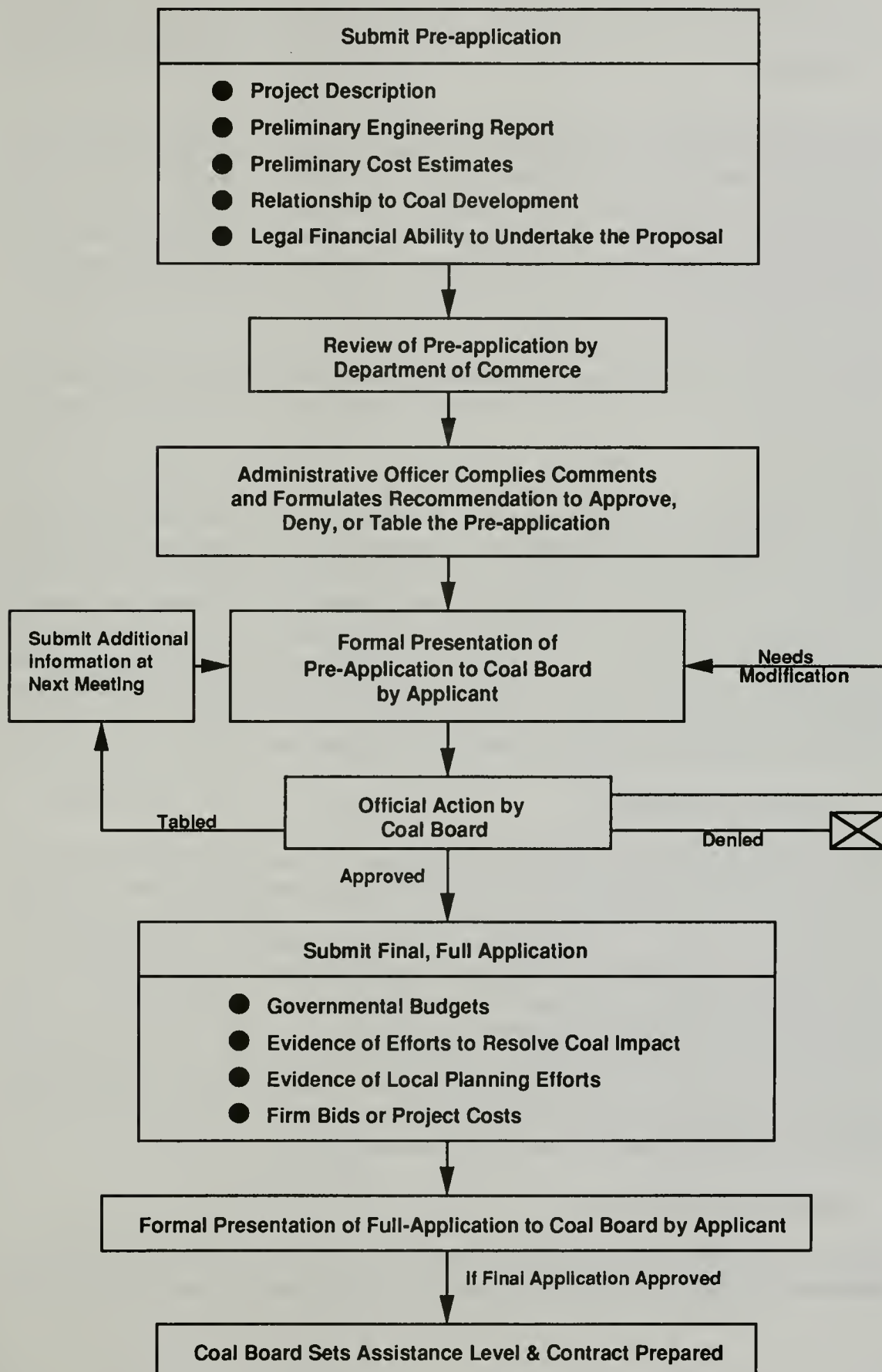
The Coal Board must award at least 50 percent of its annual appropriation to local governmental units that have or expect to experience a 10 percent increase in population as a direct result of coal development activities during five consecutive three-year periods. For calendar year 1991, the designated periods are those from 1986 to 1989; 1987 to 1990; 1988 to 1991; 1989 to 1992; and 1990 to 1993. The designated three-year periods will advance one year ahead with each passing year. Communities that experienced such population growth are "designated" by the Department of Commerce, and, thus, are reviewed on an annual basis. Other communities that are planning for or have experienced impacts as a direct result of coal development, but which may not have experienced a ten percent growth within any of the designated three-year periods, are referred to as "non-designated" communities. These non-designated coal impacted communities may apply for the remaining percentage of the annual appropriations. Grant or loan awards to these communities are dependent on the four award criteria. Procedures regarding the Montana Coal Board Grant and Loan Program are summarized in Figure 4.

e. Program Contacts

Information regarding the Montana Coal Board Grant and Loan Program may be obtained by contacting:

Murdo Campbell, Administrative Officer
Montana Coal Board
Department of Commerce
Rm C211
Cogswell Building
1400 Broadway
Helena, Montana 59620
Telephone: (406) 444-2400

Figure 4: Montana Coal Board Loan & Grant Program Application Process



4. DNRC Renewable Resource Development Program

a. General

The Renewable Resources Development Program (RRD) is administered by the Montana Department of Natural Resources and Conservation (DNRC) in order to conserve Montana's renewable resources by using a portion of the coal severance tax and Resource Indemnity Trust Interest Income for their protection and development. State law requires that DNRC attempt to attain three goals through the use of RRD funds. These goals are "to enhance public resources; optimize public benefits; and to promote conservation and efficient use of renewable resources".

Currently the RRD program is allocated 1.25% of the Coal Severance tax revenues from the spendable tax proceeds. That distribution is made in Title 15, Chapter 35, Part 108 of the Montana Annotated Code. This is a biennial allocation.

Financial assistance is available to applicants in the form of grants or loans which are available only to public entities (such as local governments). The coal tax funds are used for grants up to \$100,000, and to secure loans made from a \$5 million general obligation bonding authority. The levels of funding for Renewable Resource development programs are projected to be approximately \$1.5 million for each biennium. These loan funds can be used for any RRD eligible project. There is a loan limit of \$200,000. The loan interest rate is made at the interest rate received on the bonds and the term is can be up to 30 years or the life of the project, whichever is less.

b. Eligibility Requirements

Eligible applicants include any division of local or state government including counties, municipalities, water/sewer districts commissions, boards, agencies, or departments. The RRD program may provide funds for the construction, purchase or lease of projects for the conservation, management or development of Montana's renewable resources such as fish and wildlife, recreation and water. In regard to water or sewer projects, funds may specifically be used for the design or feasibility studies for such projects, for developing plans for rehabilitating, modifying or expanding existing facilities, or for purposes that the Legislature may approve. Grants may be awarded for amounts equal to the total cost of feasibility studies or proposed project activities for jurisdictions with no repayment capacity.

c. Application Procedures

Eligible applicants are required to complete an application provided by the Department. Applications must be submitted in May of the year preceding the

regular legislative session. This application must document the need for the project and identify alternative solutions. The alternative chosen must be the least expensive feasible alternative.

Technical, economic, environmental and financial information must also be submitted with the application. Typically, two bids or an engineer's design and cost estimate, as well as other supplementary information, are required to demonstrate technical feasibility. A description of the project's costs and benefits must be included to demonstrate economic feasibility. An environmental review form, provided by DNRC, must be submitted to determine the project's environmental impacts. Necessary financial information must also be submitted on financial statements, profit-loss and cash flow forms available from DNRC. Applicants may obtain forms and assistance in the preparation of applications from the Resource Development Bureau staff or other DNRC personnel.

All information regarding the technical, economic, environmental and financial feasibility of a project must be presented for review by DNRC staff and other qualified experts. Once the review is complete, the feasibility of the project is determined. If the proposal is determined to be feasible, it is then ranked for funding recommendations. Applications must be submitted by June of the year preceding the regular Legislative session.

d. Ranking and Approval Process

A point scoring system is utilized by DNRC to rank all proposals according to their relationship to seven designated program goals. These goals include:

- * Enhancement of Public Resources

Consideration is given to the project's effect on Montana's renewable resources.

- * Optimization of Public Benefits

The public benefit of the project is determined (including health, safety, conservation, natural environment, and economic benefits).

- * Conservation and Efficient Use

The project's effects on the use and conservation of renewable resources is evaluated.

- * Need and Urgency

Consideration is given to immediate and future problems and how

the project will alleviate them.

- * Environmental Feasibility

Project with the least environmental impact will receive preference.

- * Potential for Statewide Application

Consideration is given to projects that will provide new information or technology that may be used statewide.

- * Prior RRD Funding

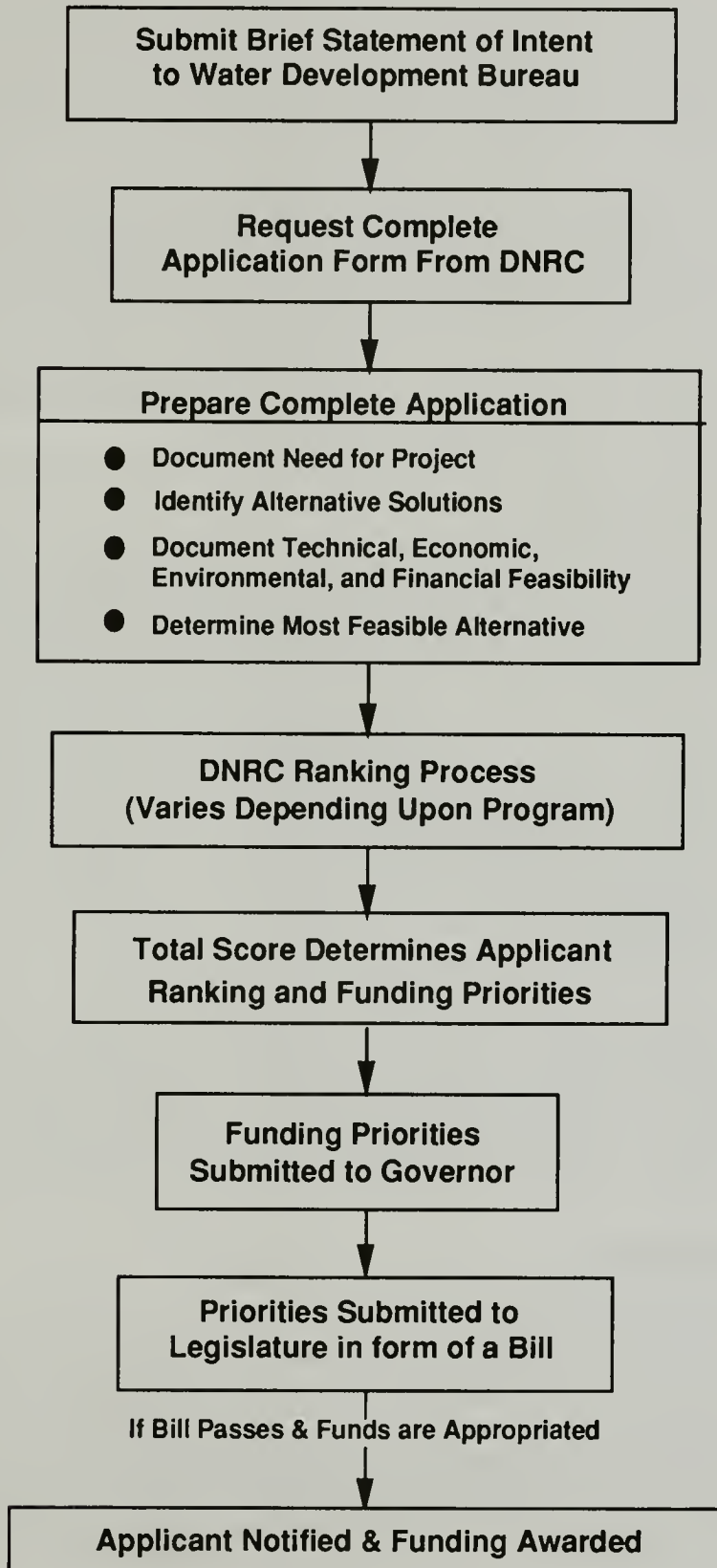
More consideration is given to projects that have not utilized RRD funding in the past.

Each program goal is weighted equally, and proposals may receive from 0 to 10 points for each category, depending on the project's relationship to the particular goal. The total point score for all seven program goals is then used to determine recommended funding priorities among all program applicants. The recommendations for project funding are then submitted to the Governor, who in turn submits them to the Legislature in the form of a proposed law. If the law passes both Houses and is signed by the Governor, RRD funds will be appropriated for a period of two years, beginning on July 1 after each Legislative session. After the law is enacted, successful applicants will be notified and DNRC will prepare a contract for the administration and disbursement of funds. Figure 5 depicts the application, ranking, and award procedures of the Renewable Resource Development Program.

E. Program Contacts

John Tubbs or Anna Miller
Resources Development Bureau
1570 East Sixth Avenue
Helena, Montana 59620-22301
Telephone: (406) 444-6687

Figure 5: DNRC Renewable Resource & Water Development Programs Application Procedures



5. DNRC Water Development Program

a. General

The Water Development Program, created in 1981 by the Montana Legislature, is administered by the Resource Development Bureau, Conservation and Resource Development Division, Department of Natural Resources and Conservation (DNRC). Its purpose is to promote and advance the beneficial use of water, and to allow the citizens of Montana to achieve full use of the state's water by providing extensive financing for water development projects and activities. This is accomplished through the use of coal severance tax funds and bond proceeds used to make loans or grants to local governments, state agencies, or private entities. Eligible private applicants include individuals, associations, and corporations. Funding for the Water Development Program is allocated each biennium.

b. Grants for Public Entities

The program is funded by an earmarked percentage (0.625% of the gross proceeds) of the coal severance tax; funding for grants is projected to be approximately \$1.5 million in each biennium. There is a \$200,000 limit on grants to public entities (such as local governments), unless the project demonstrates a repayment capacity. In this case, there is a limit on grants of 25 percent of the total project cost. In addition, grants are limited to a maximum of \$100,000. (Note: Most typical local government water or sewer construction projects have repayment capacity, thus, they will be subject to the "25% of project cost not to exceed a maximum grant of \$100,000" policy.)

c. Loans for Public Entities

There are no statutory limits on the size of loans for public entities (local governments). Interest rates for local government applicants depend on the rates obtained by DNRC when it sells the coal severance tax bonds necessary to capitalize the loans. The loans must be repaid over a period not to exceed 30 years or the life of the project, whichever is less. The bonding authority is limited to \$250 million. It is backed by the Coal Severance Tax Trust Fund.

d. Eligibility Requirements

Any division of state government, as well as cities, counties, and all other subdivisions of local government are eligible to receive funds from this program. In addition, private applicants including individuals, associations, corporations, or other non-governmental entities not eligible for a loan or grant as a public body may receive Water Development Program funds.

Proposed projects and activities must be water-related, and may be for feasibility work or construction. Specifically, projects may deal with

hydropower development, construction or rehabilitation of irrigation projects, construction of dams and reservoirs, control or saline seep, development of water-based recreation facilities and opportunities, stabilization of streambanks and erosion control, development of water supply, water treatment or rural water systems, wastewater systems, and development of water conservation measures such as conversion from pumped to gravity sprinkler systems.

In order for a project or a proposed activity to be considered for funding through the Water Development Program, the proposal must advance the objectives of the program; be economically feasible; be multipurpose as far as practical; comply with statutory and regulatory standards; and provide public benefits as a result of the proposal.

e. Application Procedures

An application must be prepared demonstrating the technical, economic, environmental and financial feasibility of the proposal. The applicant must also document the need for the proposed project, evaluate alternatives, and select the least expensive, yet feasible alternative. This information is then submitted to DNRC for review and project ranking to determine funding priorities. Applications must be submitted in May of the year preceding the regular Legislative Session.

d. Ranking and Approval Process

DNRC utilizes a point system to evaluate the proposal's conformance with ten designated program goals. Each goal is equally weighted, and proposals are awarded between 0 and 10 points for each goal, depending upon how well the proposal meets the goal. There are 100 possible points (10 goals at 10 points each). The program goals used to rank proposals include:

* Provision of Public Benefits

Projects must result in benefits to the public health, natural environment, or economic environment.

* Family Farm Projects

This goal considers the benefits the project will afford to family farms.

* Use of Reserved Water

This goal considers projects which utilize or develop reserved water.

- * Conservation and Use of Water

This goal considers projects which will promote conservation and the efficient use of water.

- * Urgency and Need

This goal considers the extent to which the project alleviates immediate or anticipated problems.

- * Environmental Feasibility

This goal considers the environmental consequences of the proposed project.

- * Degree of Multi-Purpose Use

This goal considers the benefits that the project offers to a variety of users.

- * Protection of Prime Agricultural Lands

Projects are preferred that will not take prime agricultural lands out of production.

- * Water Storage

New water storage projects or projects that will ensure the continuation of water storage are desirable.

- * Geographic Balance of Funding

Projects are preferred that allow a geographic balance of project funds.

Points are totalled for each of the ten categories and the accumulated total is used by DNRC to determine recommended funding priorities among all applicants. These recommendations are forwarded to the Governor and ultimately to the Legislature in the form of a proposed law. If the legislature passes the law and it is signed by the Governor, funds will be appropriated for the biennium and allotted to successful applicants.

The DNRC also attempts to divide funds equally between water "projects" which include all physical facilities for conserving, distributing, developing, storing and utilizing water for beneficial uses; and water "activities" which include actions or projects designed to promote or enhance water resources through efficient use, management, and protection of Montana's water.

Successful applicants will receive funding during the biennium following legislative approval. Decisions on proposals from private applicants are made by DNRC's Director, and are funded with monies made available through a block of funds appropriated by the Legislature.

Once the funding decisions have been made, DNRC enters into contracts with the sponsors of funded projects. These contracts provide a detailed scope of work, defining the work to be accomplished and setting project milestones, which are tied to disbursement of funds. The contracts also provide for quarterly reports from project sponsors. These reports are used, in conjunction with field visits, to monitor progress. DNRC staff expertise is available to ensure acceptable progress on the projects. Procedural requirements of DNRC's Water Development Program are similar to those previously depicted in Figure 5.

e. Program Contacts

Information regarding DNRC's Water Development Program may be obtained by contacting:

John Tubbs or Anna Miller
Resource Development Bureau
1520 East Sixth Avenue
Helena, Montana 59620-2301
Telephone: (406) 444-6687

6. **State of Montana Board of Investments Intermediate Term Capital Program (INTERCAP)**

a. Program Description

The Intermediate Term Capital Program (INTERCAP) offered by the State of Montana Board of Investments, can provide loans to Montana Local governments for a variety of purposes. Local governments will use an installment purchase contract as the most common way of obtaining funds under the program; however, the Board may consider any financing that a local government may legally authorize.

The following guidelines are applicable to loans obtained through the use of an installment purchase contract:

* Underwriting Standards

Participation in INTERCAP is subject to approval by the Board. A copy of the specific underwriting standards is available upon request. In general a local

government must demonstrate it has sufficient funds to repay the INTERCAP loan. Governments currently in default on any debt obligation are ineligible for participation. A Project Evaluation Sheet must be completed and submitted to participate in INTERCAP.

* Type of Obligation

To receive financing through INTERCAP, a local government will be required to enter into an Installment Purchase Contract with the Board issued pursuant to: Section 7-5-4306, MCA, for cities and towns; Section 7-7-2306, MCA, for counties; Section 20-9-471, MCA, for school districts; Sections 7-13-2217 and 7-13-2221, MCA, for water and sewer districts; Section 7-33-2109, MCA, for fire districts; and Section 17-34-2122, MCA, for county hospital districts. This obligation will constitute a debt of the local government, and will be payable from any and all revenues by annual appropriation. Issuance of the INTERCAP obligation is not ordinarily subject to the approval of the electorate.

* Installment Purchase Contract

The Installment Purchase Contract (the IPC) must be entered into before the initial receipt of funds from the Board. Additional loans can be made under the IPC up to the authorized amount. The terms of the borrowing may not exceed five years, provided that for refinancing, the term cannot be extended beyond five years from the original date of the obligation. The IPC will be secured by a pledge to annually appropriate funds for the payment of principal and interest as due, and will be further secured by a security interest to the extent legally allowable in the project.

* Allowable Projects and Amounts

Projects which are appropriate for INTERCAP funding include the purchase of equipment, vehicles, construction and maintenance machinery, computer systems, and real property and utility system improvements (more specific restrictions apply for school districts). Additionally, outstanding loans or leases for these types of projects may be refinanced through INTERCAP if legally allowed and economically advantageous.

The amount of a loan for any single project may not be less than \$10,000 for cities and towns, or \$4,000 for all other local governments, nor exceed \$500,000. There is no limitation to the total volume of participation by a participating local government except for those limits legally imposed by statutory debt limitations and imposed by the Board's underwriting considerations.

* Payment of Origination Cost

There is an origination cost of 2 percent of the total project funding per local

government. One half percent of the project amount must be submitted with a Commitment Agreement as the commitment fee. The remaining 1.5 percent will be added as an additional amount to your loan.

Example:	Project Amount	\$100,000
	Costs of Issuance	<u>2,000</u>
	Total Committed Amount	102,000
	Less: Deposit of Commitment Fee	<u>(500)</u>
	Total Amount of Loan	\$101,500

* Determination and Notice of Interest Rates

The interest rate on a loan will be annually adjusted on March 1 of every year. A borrower will receive notice of the new interest rate effective for the following 12 months on approximately March 15. From the date of a loan to March 1, 1992, the interest rate will be 6.75 percent.

* Loan Repayments

Loan repayments are made on August 15 and February 15 of every year. After the interest adjustment date each year, a payment schedule indicating the payments required at the newly established interest rate will be provided. Prepayments will be allowed with a prepayment penalty (2.5 percent the first year and declining 0.5 percent thereafter) on each February 15 or August 15 with prior notice to the Board as set forth in the IPC.

* Requirements for INTERCAP Participation

To be eligible for participation in INTERCAP, a completed Commitment Agreement, Program Data Sheet and Project Evaluation Sheet together with the appropriate commitment fee and an approved Resolution must be submitted to the Board. In approving an INTERCAP loan, the Board will consider the lawfulness and validity of the purpose to be served by the loan purchase, the ability of the local government unit to repay the loan, and the compliance with statutory debt limits. The Board reserves funds for the loan amount approved in the amount indicated in Exhibit A to the Commitment agreement (available from the Board). Additional projects can be financed subject to Board approval). To borrow funds requires entering into an IPC with its attendant documents, and an attorney must execute a form of opinion stating that the contract is legal and binding upon the borrower.

* Loan Closing

After submitting the Commitment Agreement, Resolution, Project Data Sheet, Project Evaluation Sheet, and the commitment fee, the Board will consider the request using its underwriting standards. Upon approval of the project

financing, a copy of the Commitment Agreement signed by the Board will be sent along with generic loan closing documents and further instructions. If the request is not approved or approved for a lesser amount, the commitment fee or its pro-rata proportion will be returned to the applicant.

If, prior to final closing, the terms or conditions contained in the loan closing documents are unacceptable to the applicant, the loan request may be withdrawn and the commitment fee will be refunded.

b. Program Contacts

For more information about the program, contact:

David Ewer or Debra McKee
Montana Board of Investments
Capitol Station
Helena, MT 59620
Telephone: (406) 442-1970

C. Sewer Projects

1. EPA Construction Grants Program

The Construction Grants Program was established to carry out the intent of the Federal Water Pollution Control Act of 1972 (Public Law 92-500), which is to preserve the quality of our nation's waters through the cooperation of local, state and federal agencies charged with the responsibility. The 1972 law has been amended several times, and is now commonly referred to as the Clean Water Act. The Construction Grants Program provided over 200 million dollars to 142 communities in the State of Montana for construction of wastewater treatment works.

Congress elected to cease funding the Construction Grants Program after federal fiscal year 1990. No new funds for the construction of projects are available although the Montana Department of Health and Environmental Sciences, as administrators of the grants program, has reserved some remaining grant funds for the planning and design of water pollution control projects. Small, needy communities with populations under 3500 can apply for this assistance which provides 55% to 75% grant funding for eligible planning and design costs. The community must certify that, without the grant, it could not afford to undertake the project. Under certain circumstances, a community could be required to pay the grant back if it failed to proceed with construction of necessary treatment facilities. Projects must be listed on the Construction

Grants/Revolving Loan Project Priority List to be considered for these grants.

Further information on application procedures can be obtained from the Water Quality Bureau. For the complete address, refer to the section on the State Revolving Loan Program.

2. Montana Revolving Loan Program ("SRF" Loan Program)

a. General

The 1987 Amendments to the Federal Clean Water Act (PL 100-4) created, under Title VI, a new financial assistance program to fund water pollution control projects. This new program was intended to replace the federally supported Construction Grants Program with a new, self-sufficient State loan program, whereby the federal financial interest in the program is ultimately lost. This program clearly implements the desire of Congress to transfer the responsibility of financing wastewater treatment projects from the federal government to state and local governments. Through the Environmental Protection Agency (EPA), a capitalization grant is made to the states for a period of time beginning in FY 1989 and ending in 1994. Montana is authorized to receive up to \$41,706,000 during this period to establish a state revolving loan fund (SRF). To receive the grant from EPA, the state must agree to match the federal funds with an amount equal to 20% of the federal share. The 1989 State Legislature passed the Montana Wastewater Revolving Fund Act which authorized the sale of State general obligation bonds to generate the State match funds required to receive the federal grant. The federal grant capitalizing the program allows the State to loan funds at an interest rate substantially below market rates. No construction grants to local governments are available. A number of federal requirements carry overs from the defunct construction grants program will apply to the projects funded from the initial capitalization grant. As loan repayments eventually replenish the original federal "seed" money, most of the federal character is lost.

The SRF loan program is primarily administered by the Montana Department of Health and Environmental Sciences with assistance provided by the Montana Department of Natural Resources and Conservation concerning the financial aspects of the loans. Technically, the SRF loan program is administered similarly to the old Construction Grants program. Additional emphasis is placed upon the financial aspect of the project to insure that secure loans are made for fiscally sound projects.

The types of financial assistance provided by the SRF loan program include:

1. Direct Loans - Most of the anticipated use of the SRF within Montana will be for direct loans for eligible project costs. Loans for

100% of eligible project costs can be made. The interest rate may vary from 0% to market rates with a term not to exceed twenty years. Interest rates will initially be established sufficient to cover the State's cost of borrowing money for the State match including a loan loss reserve account. Repayment must begin not later than one year after project completion with all principal and interest payments credited directly to the fund. Each loan recipient must establish a dedicated source of revenue for repayment of the loan.

2. Refinancing Existing Debt - The SRF may be used to buy or refinance existing debt obligations where such debt was incurred and construction initiated after March 7, 1985. Refinanced projects are subject to all requirements imposed upon projects receiving initial financing from the fund.
3. Guarantee or Insure Local Debt Obligations - The SRF may be used to purchase bond insurance or guarantee full and timely payment of principal and interest on the debt obligation. The SRF cannot be used to fund a reserve account for a municipal bond issue.
4. Guarantee SRF Debt Obligations - Funds in the SRF may be used as a security for additional bond issuance by the state thereby increasing the value of the fund without additional investment by the state. Use of the fund for this purpose in Montana will not be viable until financial needs increase significantly, and the federal character of the fund is lost.
5. Loan Guarantees for "Sub-State Revolving Funds" - The SRF may be used to guarantee similar revolving funds established by municipal or intermunicipal agencies.
6. Earn Interest on Fund Accounts - Funds in the SRF may earn interest prior to disbursement although the fund should not be managed primarily with this purpose in mind. All tax implications must be considered for interest earned on the proceeds of a tax exempt issue.
7. SRF Administrative Expenses - Money in the SRF may be used for costs incurred in administering the fund provided that the amount not exceed 4 percent of the capitalization grant received from EPA. Direct cost of borrowing money against the fund will be charged back to the borrower.

b. Eligibility Requirements

The following activities of the SRF are authorized by state and federal legislation:

1. The provision of financial assistance for governmental entities (such as local governments) to construct publicly owned treatment works as defined in Section 212 of the Clean Water Act (CWA). Water pollution control projects eligible under this section include wastewater treatment plants, sludge disposal facilities, sewage collection systems, combined sewer separation, storm sewers (after 1991), and ancillary technical services.
2. Implementation of non-point source pollution control management program under section 319 of the CWA. This includes implementation projects demonstrating best management practices, educational programs, and construction of remedial measures to correct a non-point source pollution problem. Landfills and leaking underground storage tanks have been suggested as being eligible for loan assistance if they are determined to be a non-point source of pollution. Private parties as well as governmental entities can receive loans under this category of the SRF program.

d. Application Procedures

The Montana Department of Health and Environmental Sciences will utilize the system developed under the old Construction Grants Program to annually rate and award prospective SRF projects. Projects will be ranked according to severity of public health hazard, adverse environmental impacts and other related factors, then placed on the Project Priority List. Projects must also be listed on the SRF Intended Use Plan. This Plan lists those projects which have indicated an ability to be ready to proceed within the fiscal year. Both lists are prepared in late summer. Public hearings to discuss the lists are traditionally scheduled in late September. Projects will be either placed on the lists by the Department or added by the request of a prospective applicant. Until the demand for loan funds exceeds the available dollars, projects will be funded on the first-come, first-serve basis. If demand for the financial assistance warrants it, projects will be funded in order of priority ranking and with upper limits placed on loan amounts.

A project must be listed on the Project Priority List and Intended Use Plan before the Department will consider an application for a prospective loan project. Complete applications must be submitted before October 1 of each year to be considered for funds available during the respective federal fiscal year. Substantial information regarding the financial capability of the applicant to support the project and make loan repayments is required as part of the

application. A completed project facilities plan must be submitted on or before the application date to provide the Department sufficient information to evaluate the project and assess all environmental impacts.

e. Program Contacts

Information and assistance regarding the State Revolving Loan Program may be obtained by contacting:

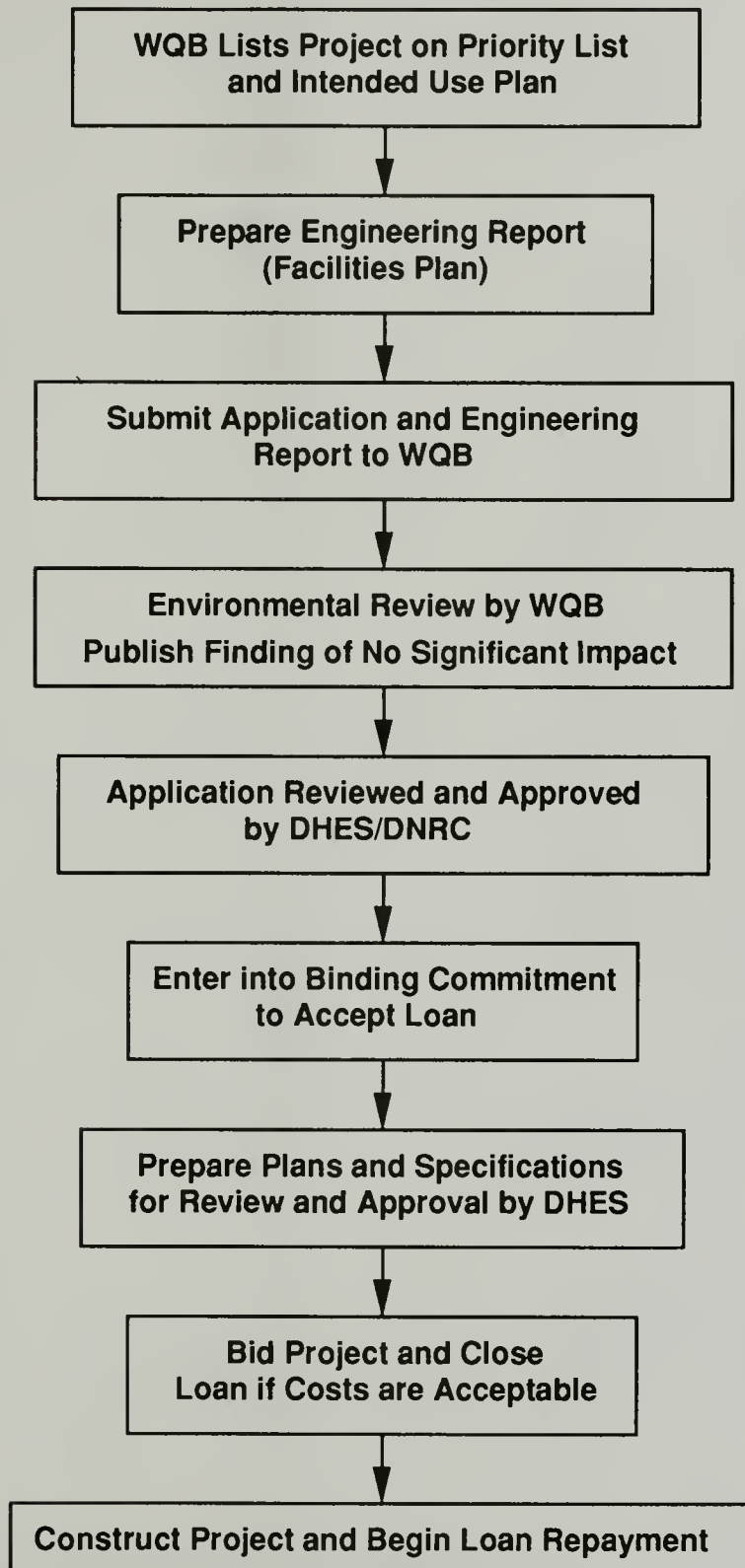
Scott Anderson
Montana Department of Health and Environmental Sciences
Water Quality Bureau
Cogswell Building, Room A-206
Helena, Montana 59620
Telephone: (406) 444-2406

D. Summary of Federal and State Programs for Water and Wastewater Projects

1. Summary Table

The primary features of each of the major federal and state programs available to communities for water and wastewater systems are summarized in Table 1. This table presents the basic eligibility requirements, financial information, ranking criteria, and other requirements of each program. The purpose of this table is to enable local officials to quickly determine if federal or state funding assistance may be available for a desired project. Individual program guidelines should be thoroughly researched to determine if the community and the project meet the detailed eligibility requirements of each program. Always contact an agency representative for detailed information. Remember that funding agencies occasionally modify their requirements and procedures.

**Figure 6: Montana Revolving Fund
("SRF") Process**



TABTS IN MONTANA

Program Name	Eligible Applicant	Funding Cycle (Deadline)	Special Requirements	Program Contact
Water & Waste Disposal Loans & Grants (FmHA)	Counties & Municipalities Special Purpose Districts Water/Sewer Districts Cooperatives Non-profit Corporations Fed-recognized Indian Trib	Apply Anytime -- Continuous Cycle	Applicants Must be Unable to Finance Project by Other Means	Mitchel R. Copp, Chief, Community & Business Programs FmHA P.O. Box 850 Bozeman, MT 59771 (406) 585-8175
Renewable Resources Development Program (DNRC)	Counties & Municipalities Water/Sewer Districts Commissions, Boards, Age	Application Due in May of Year Preceding Legislative Session	Technical, Economic, Environmental, and Financial Feasibility of Project Must be Presented	John Tubbs, Bureau Chief DNRC Resource Developm't Bureau 1520 East Sixth Avenue Helena, Montana 59620-2301 (406) 444-6667
Water Development Program (DNRC)	Counties & Municipalities Other Gov't Subdivisions Water/Sewer Districts Private Individuals Associations & Corporations	Application Due in May of Year Preceding Legislative Session	Technical, Economic, Environmental, and Financial Feasibility of Project Must be Presented	John Tubbs or Anna Miller DNRC Resource Developm't Bureau 1520 East Sixth Avenue Helena, Montana 59620-2301 (406) 444-6667
Montana State Revolving Loan Program (MDHES)	Municipalities Other Legally Authorized I Bodies Water/Sewer Districts Authorized Tribal Organiz Private Entities (NPS)	Application Due on Oct. 1	Must Get on Priority List IUP Document Health / Pollution Problems	Scott Anderson Municipal Assist. Program MDHES Water Quality Bureau Cogswell Bldg., Rm A-206 Helena, MT 59620 (406) 444-2406
Montana Coal Board Grant & Loan Program (Commerce)	Counties and Municipalities Local Governmental Units State Agencies Special Districts Water/Sewer Districts Fed-recognized Tribes	Continuous Cycle (Applications Due 30 Days Prior to Meetings)	Property Taxes Cannot be Used to Repay Loan	Murdo Campbell Montana Coal Board Department of Commerce Cogswell Bldg., Rm C-211 Helena, MT 59620-0401 (406) 444-2400
Community Development Block Grants (Commerce)	Incorporated Cities and Towns (Note: Counties May Apply of Water/Sewer Districts)	Annual Grant Competition Yearly Applications Due in Fall	At least 51% of the beneficiaries of a project must be low or moderate income	Gus Byrom CDBG Local Gov't. Assistance Div. Cogswell Bldg., Rm C-211 Capitol Station Helena, MT 59620 (406) 444-2488
Intermediate Term Capital Program (INTERCAP) (Commerce)	Local Government Units Special Purpose Districts Water/Sewer Districts	Apply Anytime -- Continuous Cycle	None	David Ewer or Debra McKee Mt. Board of Investments Capitol Station Helena, MT 59620 (406) 442-1970

TABLE 1: SUMMARY OF FEDERAL & STATE PROGRAMS FOR WATER & WASTEWATER PROJECTS IN MONTANA

Program Name	Eligible Applicants	Eligible Projects	Local Match Req'd?	Loan or Grant?	Planning Costs Covered?	Funds Available per Project	Loan Repayment Period	Ranking Criteria	Funding Cycle (Deadline)	Special Requirements	Program Contact
Water & Waste Disposal Loans & Grants (FmHA)	Counties & Municipalities Special Purpose Districts Water/Sewer Districts Cooperatives Non-profit Corporations Fed-recognized Indian Tribes	Water & Wastewater Systems (construction, Repair, Expansion)	No	<u>Insured:</u> Grants and Loans <u>Guaranteed:</u> Loans Only	Reimbursement as Part of Total Project Cost	<u>Insured:</u> No Maximum for Loans; 75% Max. Grant. <u>Guaranteed:</u> No Maximum Loan; No Grants.	40 Years or Life of Facility	Priority to: Under 5,500 Population, Health Risks, Facility Expansion	Apply Anytime – Continuous Cycle	Applicants Must be Unable to Finance Project by Other Means	Mitchel R. Copp, Chief, Community & Business Programs FmHA P.O. Box 850 Bozeman, MT 59771 (406) 585-8175
Renewable Resources Development Program (DNRC)	Counties & Municipalities Water/Sewer Districts Commissions, Boards, Agencies, Dept.	Water and Wastewater related Projects (Feasibility, Development, Expansion, Construction)	No	Both Loans and Grants	Yes	\$200,000 Loan	30 Years or Life of Facility	Enhance Public Resources Optimize Public Benefit Need / Urgency Part of Family Farm Op. Uses Measured Water Water Storage Project	Application Due in May of Year Preceding Legislative Session	Technical, Economic, Environmental, and Financial Feasibility of Project Must be Presented	John Tubbs, Bureau Chief DNRC Resource Development Bureau 1520 East Sixth Avenue Helena, Montana 59620-2301 (406) 444-6667
Water Development Program (DNRC)	Counties & Municipalities Other Gov't Subdivisions Water/Sewer Districts Private Individuals Associations & Corporations	Water and Wastewater Related Projects (Feasibility, Development, Construction)	No	Both Loans and Grants	Yes	<u>Grants (Public):</u> 25% of Project Cost. Maximum Grant of \$100,000. <u>Loans (Public):</u> No Maximum. Subject to Availability of Funds.	30 Years or Life of Facility	Enhance Public Resources Public Benefit Need / Urgency Conservation Project not Previously Received Funds State-wide Application	Application Due in May of Year Preceding Legislative Session	Technical, Economic, Environmental, and Financial Feasibility of Project Must be Presented	John Tubbs or Anna Miller DNRC Resource Development Bureau 1520 East Sixth Avenue Helena, Montana 59620-2301 (406) 444-6667
Montana State Revolving Loan Program (MDHES)	Municipalities Other Legally Authorized Public Bodies Water/Sewer Districts Authorized Tribal Organizations Private Entities (NPS)	Wastewater Systems (Interceptors, Treatment Facilities, Outfall Sewers, Infiltration / Inflow Rehabilitation) Non-point Source Control Projects	No	Loans	Yes	100% Loan for Eligible Costs	20 Years or Less	Impairment of Water Uses, Extent Project Will Restore Water Quality, Public Health Improvement, Ability to Repay Loan	Application Due on Oct. 1	Must Get on Priority List IUP Document Health / Pollution Problems	Scott Anderson Municipal Assist. Program MDHES Water Quality Bureau Cogswell Bldg., Rm A-206 Helena, MT 59620 (406) 444-2406
Montana Coal Board Grant & Loan Program (Commerce)	Counties and Municipalities Local Governmental Units State Agencies Special Districts Water/Sewer Districts Fed-recognized Tribes	Water and Wastewater Systems (Distribution Systems, Treatment Plants, Storage Facilities)	Yes	Grants and Loans to 80%	Yes	No limitations (Project Cost Estimates Will be Reviewed by Board)	20 Years	Need Severity of Impact Availability of Funds Local Effort	Continuous Cycle (Applications Due 30 Days Prior to Meetings)	Property Taxes Cannot be Used to Repay Loan	Murdo Campbell Montana Coal Board Department of Commerce Cogswell Bldg., Rm C-211 Helena, MT 59620-0401 (406) 444-2400
Community Development Block Grants (Commerce)	Incorporated Cities and Towns Counties (Note: Counties May Apply on Behalf of Water/Sewer Districts)	Public Facilities (Water & Wastewater Systems)	No, However, increased score for at least 25% match	Grants	NO for Costs incurred Prior to Grant Award YES for Costs Associated with Engr. and Grant Administration	\$375,000 for Public Facility Grants	Not Applicable	1. Needs Assessment - Citizen Participation 2. Need for Project 3. Appropriateness of Technical Design 4. Operation and Maintenance Etc.	Annual Grant Competition Yearly Applications Due in Fall	At least 51% of the beneficiaries of a project must be low or moderate income	Gus Byrom CDBG Local Gov't. Assistance Div. Cogswell Bldg., Rm C-211 Capitol Station Helena, MT 59620 (406) 444-2488
Intermediate Term Capital Program (INTERCAP) (Commerce)	Local Government Units Special Purpose Districts Water/Sewer Districts	Water & Wastewater Systems (Construction, Repair, Expansion)	No	Loans	No	Minimum: \$10,000 Cities; \$4,000 All other local governments Maximum: \$500,000 per Project	Up to Five Years	No Formal Criteria. However, Board examines applicant's financial profile and repayment ability.	Apply Anytime – Continuous Cycle	None	David Ewer or Debra McKee Mt. Board of Investments Capitol Station Helena, MT 59620 (406) 442-1970

Part VI: Basics of Local Government Financing Methods

A. Introduction

The provision of public facilities and services for the benefit of all citizens in the community is one of the primary functions of local government. Since the capital facilities necessary to provide these services are expensive and local financial resources are generally limited, local governments have developed a variety of approaches to raising the money for capital improvement purposes. Most federal and state assistance programs for community water or sewer projects require that some portion of the project cost be borne by the community. Often the best (and only) way that a community can provide this local matching share of large capital projects is through debt financing. Debt financing may occur over the long term through the issuance of municipal bonds, which are interest-bearing promises to pay a specific sum of money (principal amount) on a specified date or dates in the future, or by short-term borrowing measures such as loans, warrants or notes. Borrowing permits the cost of capital improvements to be shared with those citizens who will be using the facility in future years. The debt is typically repaid by increasing the fees paid by water and sewer users (consumers).

Use of municipal bonding as a financing method has increased throughout the country over the last three decades due to increasing populations and the related demand for public services. Since municipal officials and citizens are often called upon to make decisions regarding these long-term financial commitments, the following narrative is intended to provide an overview of the "basics" of municipal bonding in terms of issuing procedures, requirements, and usage. Subsequent sections of this chapter will discuss short-term and interim financing methods, local revenue sources, and special purpose districts. Local governments that are considering a bond issue should contact bond counsel, bond underwriters, and a financial consultant for assistance in the legal, procedural, and marketing aspects of bonding.

Part VI: Basics of Local Government Financing Methods

A. Introduction

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B. Long-Term Financing

1. Types of Municipal Bond Offerings

In general, there are four major types of municipal bond offerings commonly used in Montana. These include: a) general obligation bonds; b) revenue bonds; c) special assessment bonds; and d) refunding bonds.

The type of bond issued to finance a community's improvements depends in part on the historical use of bonding in the community and the circumstances surrounding the bond offering. The following narrative briefly defines each of the major bond types.

a. General Obligation Bonds

General obligation bonds pledge the unlimited taxing power and the full faith and credit of the issuing government to meet the required principal and interest payments. The amount of general obligation debt that a community can issue is limited by Montana statutes. These bonds are most often used to finance capital projects which benefit the entire community over a long period of time (generally 20 years). An election is required to obtain voter approval prior to the issuing process. The bond issue election is caused by the presentation of a petition signed by a percentage of voters (usually 15%) or by the unanimous consent of the governing body.

b. Revenue Bonds

These bonds pledge the revenue from a particular source (most often the revenue from the facility to be constructed) to meet the principal and interest payments. The bonds are issued without the full faith and credit of the issuing government. The debt a community undertakes by the issuance of revenue bonds is not subject to Montana limitations on bonded indebtedness. Community-wide sewer and water projects are most often funded by revenue bonds.

c. Special Assessment Bonds (SID's, RID's)

Special assessment bonds are issued to pay for public improvements where the property benefited by the improvements can be identified. The principal and interest payments are made from a special assessment on the identified properties. These bonds are issued in conjunction with the formation of special improvement districts, and are typically backed by special improvement district or rural improvement district revolving fund.

d. Refunding Bonds

Refunding bonds are bonds issued to retire an already outstanding bond. These bonds do not represent a different method of financing a new project; however, they do allow for refinancing of a prior project. The bonds may either be general obligation bonds or revenue bonds, and are issued to : 1) shorten the term of the outstanding bond issue; 2) take advantage of more favorable interest rates; 3) eliminate restrictive covenants on the primary issue; 4) reorganize the maturity schedule of a bond issue; or 5) consolidate community debt. The debt is not subject to limitations on bonded indebtedness.

2. Description of a Municipal Bond

As previously mentioned, a bond is a certificate representing a promise from the issuer to pay a specified sum of money (face value or principal amount) at a specified date or dates in the future with periodic payments of interest at a specified rate. Municipal bonds are identifiable by four items which include: a) the name of the issuer; b) the interest rate; c) the maturity structure; and d) the yield or price. These items are common to all bond issues and are keys to understanding the municipal bonding process. Later sections of this chapter will discuss other features that are commonly associated with the issuance of bonds.

a. Name of Issuer

The first essential item contained on any bond is the name of the issuer. In most cases, bonds issued to pay for the costs associated with water or sewer systems will be issued by either county or municipal governments. The board of directors of county water and/or sewer district has the authority to issue bonds after approval is granted through a public referendum. Local governments also issue bonds to pay for projects undertaken through the formation of special or rural improvement districts, and are repaid through assessments to property owners in the districts.

b. Interest Rate

The interest on a bond is the compensation paid or to be paid for the use of money. Interest is most commonly expressed as an annual percentage rate. In the case of municipal bonds, interest is paid semi-annually by the issuer to the bondholder (investor). Most municipal bonds have interest rates which are either fixed at the time the bond is issued and remain the same over the life of the bond (called fixed-rate bonds) or have an interest rate that varies for the term of the issue (called variable-rate bonds). Variable-rate bonds are a recent addition to the municipal bond market. Interest rates on variable-rate bonds are lower than fixed-rate bonds because variable-rate bonds are structured with maturities considerable shorter than long-term fixed-rate bonds. Variable-rate

demand bonds (sometimes called "lower floaters") can carry a short-term interest rate because the remarketing agent (usually a money-center bank) will buy back the bonds from an investor wishing to sell on a daily, weekly or monthly basis, depending on the terms of the bonds. Interest rates depend on the credit rating of the community or enterprise to be funded; the type, size and risk of the investment; and the maturity structure of the bond.

c. Maturity Structure

The maturity structure of a bond issue identifies the dates upon which the investor will receive payments of principal and interest. This structure is basically determined from the annual need for cash and the length of time the debt will extend. As a general rule, money should not be borrowed for longer than the life of the capital improvement it will purchase. In the case of water or sewer facilities, the bond should be repaid while some useful life remains in the facility. The maturity structure (or repayment pattern) that a community selects should consider the existing debt retirement structure, expected revenues during the repayment period, and the rate at which the community will receive benefits from the new facility. The repayment patterns used by communities are classified as serial maturity, term maturity, or irregular maturity.

Serial maturity structures allow the principal to be repaid in periodic installments over the lifetime of the issue. This structure allows for repayment of equal amounts of principal each year, which in turn reduces annual interest costs. Term maturity structures require that only annual interest payments be made to bond holders and that the principal amount borrowed be repaid in one lump sum when the bond reaches final maturity. The principal amount of the bond issue may be repaid from funds set aside in a special fund established for debt retirement (sinking fund), or with newly borrowed funds. Bonds may also be issued with irregular maturity structures in which repayment of principal and interest may follow any schedule. This maturity structure allows local governments to tailor the repayment of debt to fit the anticipated future situation of the community. A recent development in the long-term bond market has been the introduction and variation of deep discount bonds, commonly called zero-coupon bonds. Zero-coupon bonds sell at a deep discount to their face value (for instance, a purchase price of \$400 for a \$5,000 bond). The issuer of the bond makes no interest payment until maturity, at which time the bond is redeemed at its full face value (e.g. \$5,000). The difference between the sale price and face value at redemption provides the bond's interest rate. Variations to the zero-coupon structure provide for shallower discounts and payment of interest after the first ten years.

d. Yield

The yield of a municipal bond refers to the return the bond purchaser receives on his investment. This yield reflects the interest rate, length of time to maturity, and whether the bond was purchased at a premium or discount. When the interest payment is fixed, the price of bonds available to investors must change in order to keep the yield competitive with other newly issued bonds. The yield from municipal bonds may fluctuate due to changes in the economy, changes in the credit worthiness of the issuer, or changes in the demand for bonds by investors. Yield is most often discussed in terms of "current yield" or "yield to maturity". "Current yield" is the relationship of the annual interest to the actual market price, stated as a percentage. This relationship gives investors a quick and simple measure of the current income on a bond earned from interest payments. The "yield to maturity" is a measure of the net annual return on the municipal bond from purchase to final maturity. This measure of yield is the most indicative to investors in the bond market.

3. Other Bond Provisions

There are several other important features and practices that are commonly associated with municipal bonds. While these items are less basic than those previously mentioned, these characteristics are fundamental to a working knowledge of municipal bonds. These items include: a) call provisions; b) bond ratings; and c) bond registration.

b. Call Provisions

Call provisions are a type of bonding provision which permits the issuer to pay the obligation prior to the stated maturity date on the bond. Bonds with this provision usually have a "call date" which gives the earliest date that the issuer can redeem the bond. Call provisions allow local governments to take advantage of any significant drop in interest rates to refinance debts.

With the exception of variable-rate demand bonds, investors are usually willing to purchase callable bonds only at higher interest rates than non-callable bonds of a similar nature; or they may require a call premium, which is an additional amount payable to the bond holder if the bond is called by the issuer. Bond issues are attractive to investors, in part because they represent an opportunity to obtain a fixed income for a number of years. If bonds are callable, investors may not realize this anticipated income. As a result, investors may hesitate to purchase callable bonds unless some incentive such as higher interest rates or call premiums are offered.

b. Bond Rating

A bond rating is a description of a local government's credit worthiness as determined by a bond rating agency. Many local governments use their rating to increase the marketability of a particular bond issue. The two nationally recognized bond rating agencies are Moody's Investors Service, Inc. and Standard & Poor's Corp., both of which are located in New York City. Ratings are also used by investors to gain a relative indication of the quality of investment that a bond offering presents. Bonds are usually rated as investment grade or below investment grade, with various degrees comprising each category. In general, the higher the bond rating, the lower the interest costs to the issuer of the bond. Many small communities may not have their bonds rated if potential interest savings from offering rated bonds do not offset the cost of obtaining the bond rating or if the issue is small. One of the best ways for a community to obtain a favorable bond rating is to demonstrate careful long-range planning, accurate recordkeeping, and a historical pattern of prompt debt retirement. Any bonds sold under a private sale to a federal agency (e.g., FmHA) or the State of Montana are not rated. A bond rating can be obtained in some instances by the purchase of municipal bond insurance or other type of credit enhancement from a financial entity which already has a rating.

c. Bond Registration

A registered bond is one in which the owner is registered with the issuing governmental unit, and sale or exchange of the bond cannot occur without a change of registration. Bonds are now required to be fully registered as to principal and interest or as to principal only. There are no coupons attached to the bonds, and the payment of principal and interest will automatically be made to the registered owner. Effective July 1, 1983, all tax-exempt public obligations issued by state or local governmental units in Montana are required to be fully registered as to principal and interest.

4. **Bond Underwriting and Marketing**

Due to the size of most municipal bond issues, single investors are not generally available or willing to purchase the entire offering themselves. As a result, municipal bonds are most often purchased by an underwriter or a syndicate of underwriters. The underwriter is usually an investment house that serves as an intermediary between the issuing government and potential investors. The underwriter agrees to purchase the entire bond issue in hopes of reselling the individual bonds to investors at a profit. There are two types of underwriting; negotiated and competitive.

Negotiated underwriting occurs when an underwriter is selected as the bond issue is being formulated. Representatives of local government, the

underwriter, and the fiscal consultant (if one is retained by the issuer) cooperatively agree on the interest rate that will be paid on each maturity date. Negotiated underwritings are often used for revenue bond issues; however, Montana statutes prohibit negotiated revenue bond sales. Under certain circumstances, a federal agency may underwrite a bond issue. For example, the Farmers Home Administration may underwrite all or part of a community's bond offering to construct or improve water and sewer facilities if agency and program requirements are met.

Underwriting may also be undertaken on a competitive basis. The underwriter selected to purchase the bonds is the one who offers to buy them at the lowest interest cost. The community may solicit bids from all interested underwriters. The number of interested underwriters in competition for the bid offering depends on the size and quality of the bond issue. An underwriter's bid states the annual interest rate the community will pay for bonds maturing each year and the amount of principal the underwriter will provide to the community. The bid is based on the characteristics of the community, its outstanding debt, credit rating, characteristics of the particular issue, and upon what the underwriter feels the investors will be willing to pay when the bonds are resold. Competitive underwriting is used to select underwriters for most general obligation and revenue bond issues.

Depending on the type, municipal bonds may be underwritten at par, discount, or premium. Bonds are underwritten at par when the underwriters provide the community with the exact amount borrowed. If the underwriters provide the community with less than the principal amount borrowed, the bonds are said to be underwritten at a discount. Likewise, if an underwriter provides the community with more than the principal amount borrowed, the bonds are underwritten at a premium. Montana statutes do not permit communities to sell bonds at a discount. The cost to investors that an underwriter may offer is directly attributable to whether or not bonds have been underwritten at par, discount, or premium. For example, if bonds are underwritten at a discount, they will most likely be offered to investors at close to par, or their stated face value. Similar resale patterns may be expected by investors if bonds are underwritten at par or at a premium.

5. Servicing the Bond Issue

Once the bonds are delivered to the investor, the only contact between the issuer and the investor is through the Paying Agent, Registrar, or Transfer Agent. Paying Agents are almost always banks which are responsible for sending interest and principal repayments to investors and for keeping accounting records of all transactions involving investors. Communities should not insist that local banks be the designated Paying Agent because most local banks are not staffed or well-equipped enough to handle the large number of transactions most bond issues require, especially registered bond issues.

Bond Registrars are often the financial officer of the local government (treasurer or town clerk) in the case bearer bonds or the duties may be the responsibility of a financial institution. The Registrar is responsible for making certain that the amount of bonds in circulation is equal to the amount of outstanding debt. Transfer Agents are responsible for making certain that bonds are transferred in a proper manner in the event of sale or exchange. The duties of the Paying Agent, Registrar and Transfer Agent are typically defined in the Bond Resolution, and may be undertaken by the same financial institution.

6. Required Time Frame for Bond Issues

The amount of time required to prepare and issue bonds is dependent on the size and complexity of the bond issue and whether or not the community is prepared to begin the debt issuing process. Typically, approximately six months are required between the time that local officials post notice of a meeting to consider improvements and the time the community receives the money. If an election is required to approve the bond issue, an additional six months to a year may be necessary to obtain funds for the project. An additional three to six months may be required if project feasibility studies are needed.

7. Required Documentation

A number of documents must be prepared by local officials in conjunction with any bond offering. Much of this documentation is required by state law; however, some documentation is prepared to enhance the marketability of the bond issue. In addition to the bond certificate itself, which contains a summary of the many terms and conditions of the bond issue, other documentation may be necessary, depending on the type of bond offering. The following narrative briefly discusses this supplemental documentation.

a. Notice of Sale

This document is often the initial step in the process of offering municipal bonds for competitive sale. It specifies the maturity structure, the amount of principal to be repaid at various maturity dates, and the date and time of the bond sale. In addition, the official Notice of Sale indicates the basis of awarding the bid on the bonds, the selection criteria for evaluating underwriter bids, and bid structure requirements.

b. Bond Indenture or Resolution

This document sets forth the maturity date and interest rate of the bond issue, identifies the security for the bonds, describes the rights and duties of the bond purchaser, Registrar, Transfer Agent, and issuer. This document will also describe the provisions for registration, transfer and payment of the bonds.

c. Official Statement

This document is issued in connection with both general obligation and revenue bonds. It describes, in detail, the community, its major industries, largest property taxpayers, outstanding municipal debt, historical tax collection and bond repayment information, and future borrowing plans. In addition, details of the bond issue are discussed, including: 1) the purpose and the amount; 2) type of bond offering; 3) maturity structure, interest payment dates, and call privileges (if any); 4) the time and location of the bidding; 5) the location where the bonds will be delivered; and 6) the name of the community's bond counsel. The Official Statement may be prepared by local government officials, the community's financial consultants, the underwriter or bond counsel, or a combination of these individuals, and is required whenever a bond issue is underwritten on a competitive basis. The Official Statement is intended to inform potential underwriters and investors of the community's ability to repay the money it borrows. Feasibility studies, rate structure analyses and community debt analyses usually form the basis for much of the Official Statement.

d. Legal Opinion

The Legal Opinion is a document certifying that, in the opinion of a specialized bond attorney, the municipal bond issue complies with all legal requirements regarding municipal debt. The Legal Opinion is intended to inform investors that the community has the legal authority to issue the bonds and that the community is legally bound by all provisions in the bond. Typically, the bond counsel is requested to give an opinion that the interest on the bond issue is exempt from federal income taxation. This legal opinion makes the bonds marketable.

e. Feasibility Studies

Feasibility studies often accompany bond issue documents and are generally prepared by an engineer or a Certified Public Accountant. The studies present cost justifications for the proposed project and provide supplementary evidence regarding the community's ability to repay the debt to be incurred, especially if the proposed facility will generate revenue to be used for debt retirement.

8. Professional Assistance

Communities without specialized legal or financial personnel on staff may require professional assistance to design a bond issue and obtain the required legal documentation. The type of professional assistance needed depends on the size and complexity of the bond offering. Financial consultants can help to evaluate the long-term capital improvements program, design the bond issue,

and help in the preparation of all the official documents for bond rating and marketing. Typical services offered to communities by financial consultants include:

- * Preparation of information on revenues necessary to retire bonds (reserve funds and sinking funds);
- * Recommendation of bond provisions (call features, covenants, maturity structures, etc.) and timing to obtain the lowest possible interest rates;
- * Review of outstanding bond indentures;
- * Preparation and printing of the Official Statement and Notice of Sale, and distribution to potential investors;
- * Bond rating and decisions on the viability of bond insurance;
- * Printing of the bonds; and
- * Assistance in the delivery of bonds to the initial purchaser.

The primary function of a bond counsel is to advise the issuer on the legal and tax aspects of the bond sale. For every bond issue, the bond counsel's duty is to ensure that the requirements of local, state and federal laws, judicial opinions and enabling legislation or procedures are met so that the bond issue is legal. As previously mentioned, the bond counsel must offer an opinion as to whether the interest earned on the particular bond issue is exempt from federal income taxation. The bond counsel may also be required to make sure the bonds are issued properly.

Professional engineering services are also important to most bond issuance. In the case of water and sewer projects, it is the role of the engineer to determine project costs through preliminary engineering and the design of the project. The amount of bonds needed for the project may be determined by the engineer after construction bids have been obtained, selected, and reviewed.

Since recent legislation requires that all tax-exempt public obligations issued after July 1, 1983 be fully registered, the roles that the Bond Registrar or Transfer Agent play in the servicing of bond issues may increase in importance. In the past, county or city treasurers and town clerks have filled these roles because many bonds were issued as bearer bonds, for which interest was paid upon the receipt of coupons and principal payments made upon presentation of the bond certificate. The new registration requirement imposes more stringent requirements regarding bond ownership and transfer, and may result in increased administrative costs. Communities may benefit from the appointment of an independent Registrar or Transfer Agent rather than

utilizing local government staff.

Other general assistance in the preparation of a bond issue may be obtained from the Montana Association of Counties (406-442-5209) or the Montana League of Cities and Towns (406-442-8768). These organizations may provide assistance on technical or legal matters at little or no cost to the community. In addition, these organizations may supply lists of recent debt offerings within the state for reference purposes.

C. Use of Municipal Bonds

1. General Obligation Bonds

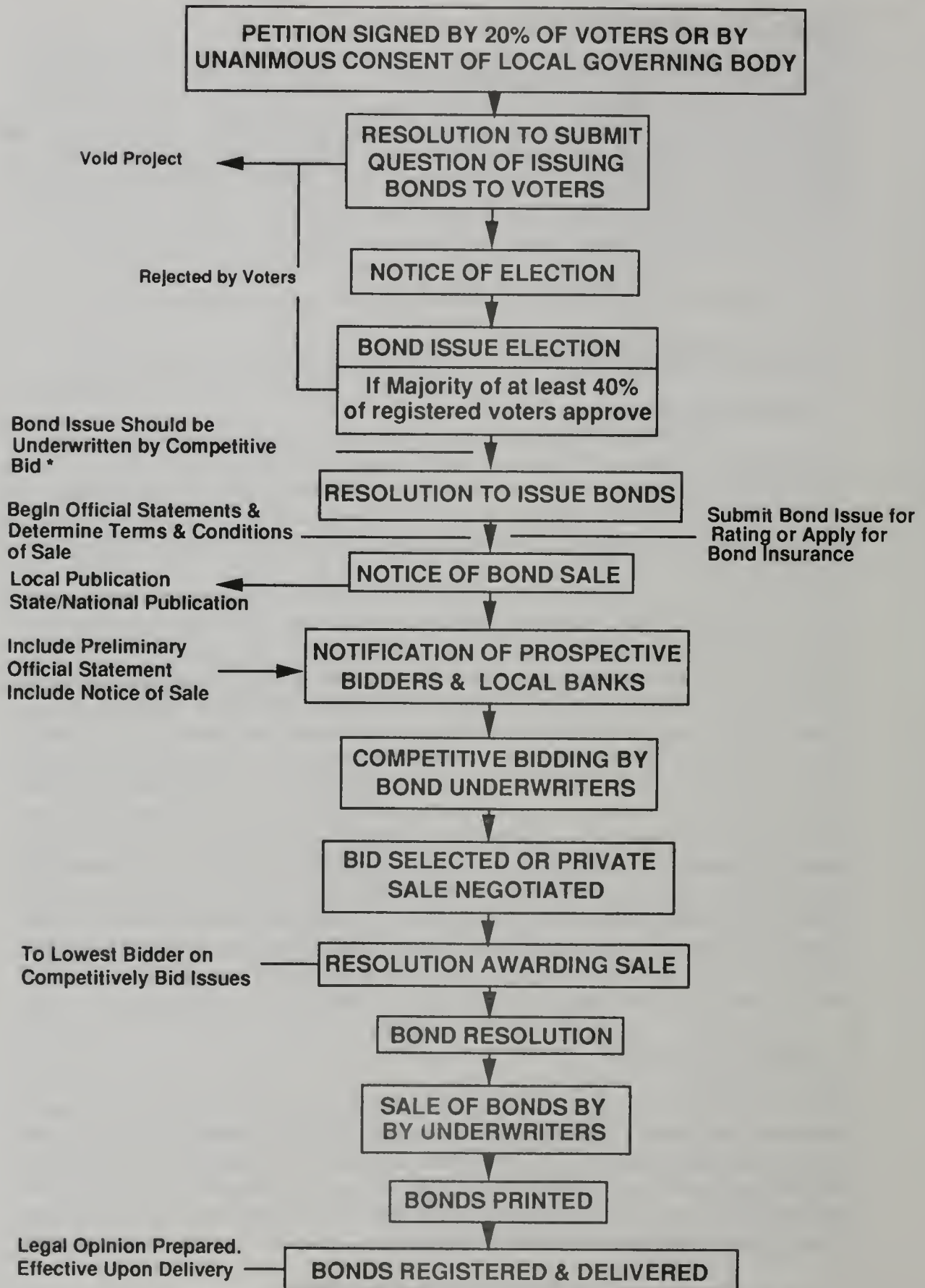
a. Purpose and Usage

The traditional means of financing most large, non-revenue producing capital improvements projects in Montana communities has been through the use of general obligation bonds. These bonds may be issued by local government to finance projects that benefit the entire community for a long period of time. Montana statutes identify the major purposes for which municipalities or counties may incur indebtedness. One such purpose for issuing bonds is for the "construction of sewers, sewage treatment and disposal plants, water works....." [7-7-4101(2), MCA]. State statutes limit the amount of general obligation debt that a community may incur to 28 percent of the community's taxable value. Similar limitations are imposed on counties, which may not exceed 11.25 percent of their taxable value for most purposes, City-county consolidated governments may not exceed 39 percent of the taxable value of the property subject to taxation. Special provisions are available to Montana cities and towns that allow them to incur additional general obligation debt for water and sewer system construction over and above the 28 percent debt limit. Municipalities may borrow money or issue general obligation bonds totalling up to 55 percent of the taxable value of property in the community for the express purpose of constructing or improving water and sewer facilities. City-county consolidated governments may issue bonds amounting to an additional 10 percent of the taxable valuation over and above the 39 percent debt limit for water or sewer system construction or improvements.

b. Issuing Procedures

Montana counties and municipalities are subject to virtually the same provisions for issuing general obligation bonds. For discussion purposes, this issuing procedure will be simplified into five stages including the bond issue election, notification of bond sale, bond underwriting, issuance of bonds, and service of the bonds issue. Figure 7 depicts the generalized procedure for issuing general obligation bonds in Montana.

Figure 7: General Obligation Bond Issuing Process



* Montana Statutes Require that all General Obligation Bond Issues be Underwritten by Competitive bid

i) *Bond Issue Election*

Local governments may call for an election on the question of issuing general obligation bonds whenever the governing body unanimously consents that the issue complies with the purposes authorized by state law.

The bond issue election may also be initiated through the petition process whereby 20 percent of the registered voters in the county or municipality request that the question be put to the voters for approval in a general or special election. Any proposition relating to water or sewer systems must be submitted to the public at a bond issue election for approval before any municipality may issue general obligation bonds. If the local government is authorized to submit the proposition of issuing bonds to voters by law or if significant interest in the proposition is indicated by petition, the governing body is required to pass a resolution stating that the question of issuing bonds will be put to the voters in a general or special election. Notice of the election must be published and posted to specify the date and voting hours of the election and to specify the purpose, term and amount of the bond issue. If a majority of a least 40 percent of the registered voters in the municipality or county (depending on the issuing government) favor the proposition, then the proposition will be considered adopted and approved. (Reference: 7-7-4201 through 7-7-4235, MCA for municipalities; 7-7-2201 through 7-7-2237, MCA for counties.)

ii) *Notification of Bond Sale*

After voter approval of the proposition is obtained, the issuing government must pass a resolution to issue bonds which specifies the purpose, amount, term, and other bond requirements. The resolution must also adopt and subsequently publish a "Notice of Sale of Bonds". This notice is a solicitation for bids from bond underwriters and must be published in local newspapers and may be published in other newspapers within Montana or in other states. Notification of a pending bond sale as well as any other information deemed necessary must be supplied to the Montana Department of Administration (Board of Investments) for review at least 15 days prior to the bond sale. (Reference: 7-1-4236 through 7-7-4243, MCA for municipalities; 7-7-2238 through 7-7-2253, MCA for counties.)

iii) *Bond Underwriting*

General obligation bonds are most often underwritten on a competitive bid basis. Bids submitted by underwriters will indicate the type of bond, the annual interest rate that the issuing government will pay for bonds maturing each year. Bonds offered by local government in Montana must be sold at par. The issuing government shall determine and select the bid which is judged to be the most advantageous to its constituents; however, the local government has

the option to reject all bids and offer the bonds at a private sale. After a bid is selected, the local government may pass a resolution awarding the sale to the selected underwriter and prescribe the form of the bonds. General obligation bonds may be issued for no longer than 20 years. (Reference: 7-7-4254 and 7-7-4255, MCA for municipalities; 7-7-2254 and 7-7-2255, MCA for counties.)

iv) *Issuance of Bonds*

This stage of the bond issuing process consists of the printing, registration, and delivery of bonds. The printing of bonds is the responsibility of the issuing government or of the underwriter if printing is included in the bid. After the bonds have been printed, it is the responsibility of the county treasurer, city treasurer, town clerk, or Bond Registrar appointed in the Bond Resolution to register the bonds prior to being delivered to the purchaser. The registration must include the number, principal amount and interest rate of each bond, the issue date, redemption date, if any, and the due date, the amount of principal and interest payments required for each bond with dates for payment specified, and the name and address of the purchaser. Delivery of the registered bonds to the purchaser shall occur at the time full payment is made. (Reference: 7-7-4256 through 7-7-4259, MCA for municipalities; 7-7-2256 through 7-7-2259, MCA for counties.)

v) *Service of the Bond Issue*

All proceeds from the sale of general obligation bonds must be paid to the county treasurer, city treasurer, or town clerk and are immediately available for the purpose for which the bonds were issued. The local government must create a sinking fund for the sole purpose of paying the interest and principal on the outstanding bonds. All revenue collected from taxes issued to repay the bond offering must be credited to the specific sinking fund and used to repay the debt. The sinking fund may be invested (subject to Department of Administration approval) or used to buy back outstanding bonds from bond holders. The issuing government is responsible for the payment of interest or principal from the sinking fund upon presentation of the proper coupon or bond by the bond holder. If revenue in the sinking fund is insufficient, the issuing government has the authority to levy additional taxes to make the required principal or interest payment.

c. Advantages and Disadvantages of General Obligation Bonds

i) *Advantages*

Since the issuing government pledges its unlimited taxing power and its full faith and credit, general obligation bond issues are considered to be secure investments. This fact makes general obligation bond offerings attractive both to underwriters and other investors; however, interest rates on these bonds are

frequently lower than other bond types. The primary advantage of issuing general obligation bonds over other bond types is that non-revenue producing projects may be financed over long periods of time. Projects funded through the sale of these bonds generally benefit the entire community for periods of twenty years or more. The outstanding debt is retired over the life of the project from a form of taxation that is equitable to all residents. Any revenue remaining in the sinking fund after principal and interest payments have been made may be invested and used to retire the debt prior to final maturity. Since voter approval is necessary prior to the issuance of general obligation bonds, the expense is generally acceptable to local citizens.

ii) *Disadvantages*

The extent to which general obligation bonding may be used in Montana is limited by State statutes regarding maximum indebtedness and by the fact that voter approval must be obtained before a local government may issue bonds. Additionally, a default on the bond issue may require the issuing government to levy additional taxes on local residents. The process of issuing general obligation bonds may be quite lengthy due to bond election procedures and the complex credit analysis required to market bonds. This time lag may push back project completion dates and result in increased construction costs. Recent legislation allows local governments to pay fees to underwriters or financial consultants for assistance in putting financing programs together. This may allow local governments to avoid procedural errors and ultimately speed up the process. If property taxes provide the primary source of revenue for debt retirement, the cost of new facilities or improvements to existing facilities may not be paid for by project beneficiaries. Such a situation may occur in areas impacted by energy development where large numbers of temporary workers may be required only during peak construction periods. During this period, the demand for community services may be great and improvements or new facilities may be required to meet the additional demand for services. Since the construction force is temporary, few are likely to become permanent property owners in the community. If the local government issues general obligation bonds to pay for the required services, local residents will be required to repay the issue for many years after the departure of the transient population.

2. **Revenue Bonds**

a. Purpose and Usage

Another traditional long-term method of financing major capital improvement projects is through the use of revenue bonds. These bonds pledge the monies obtained from a particular revenue source to meet the principal and interest payments of the bond issue. In the past, Montana statutes have limited the use of revenue bonds to municipalities; however, recent legislation has extended the provisions for use of such bonds to include

counties. One of the primary purposes for which revenue bonds may be issued is for the acquisition, construction, maintenance and operation of water and sewer systems [7-7-4402(3a) through 7-7-4404, MCA]. Additional provisions are included in the statutes that specifically delegate powers to local governments regarding their role in pollution abatement programs sponsored by any federal or state agency or by private industry [7-7-4405, MCA]. The debt incurred by the issuance of revenue bonds is not subject to state limitations on bonded indebtedness.

b. Issuing Procedures

Procedures for issuing revenue bonds are similar in most respects to the provisions for issuing general obligation bonds. The primary difference is that revenue bonds may be issued through a resolution of the governing body, and, therefore, an election is not required. The governing body, at its own discretion, may submit the question of issuing bonds to the voters for approval. If the issue is submitted to voters, the election must comply with the same provisions that govern general obligation bond issue elections.

Any facility or project financed through the use of revenue bonds is required to be self-supporting. The local government must prescribe (and revise, when necessary) the appropriate fees or service charges to insure that the undertaking remains self-supporting. The fees or service charges must be sufficient to pay all principal and interest costs of the bonds, must provide for operation and maintenance costs, and must provide adequate reserve funds. The proceeds from the sale of bonds must be applied only to the bond issue for which it was intended, and transfer of funds to any other account is prohibited.

The method by which revenue bonds may be underwritten may also vary from that commonly used for general obligation issues. Revenue bonds are commonly underwritten on a competitive basis, whereby underwriter bids are solicited and selected based on which bid has the lowest borrowing costs. State statutes impose limits on several revenue bond provisions for the protection of the issuing government. These provisions require that revenue bonds be sold at par or better; that interest rates be payable semi-annually; and that final maturity not exceed 40 years from the date of issue. (Reference: Municipalities and Counties, 7-7-Parts 43, 44, 45, MCA.) Figure 8 depicts the general process for issuing revenue bonds.

c. Advantages and Disadvantages of Revenue Bonds

i) *Advantages*

The major advantage of using revenue bonds over other bond types is that revenue bonds are paid for by the users of the facilities being financed. This feature of revenue bonds constitutes the most equitable method of debt

repayment for local citizens and assures that the facilities will be self-supporting through the assessment of user fees or service charges. Use of revenue bonds by local government is also advantageous due to the fact that the debt is not subject to Montana limitations on bonded indebtedness and that a bond election is not required. The credit analysis required for revenue bond issues is more straightforward because payment generally comes from only one source and an analysis of the economic health of the entire community is not necessary. However, the legal and financial protective of the revenue bonds do require close scrutiny. In the event of default, local taxpayers are not burdened with the debt repayment. Another advantage of revenue bonds is that they can be used to finance projects extending beyond municipal boundaries. Generally speaking, revenue bonds may be supported by a pledge of revenues received from operations in any legitimate service area, whether inside or outside the geographical limits of the borrowing governmental unit. Use of revenue bonds allows needed improvements to be undertaken, even if the locality has reached its legal debt limit or taxing limit for general obligation bonds.

ii) Disadvantages

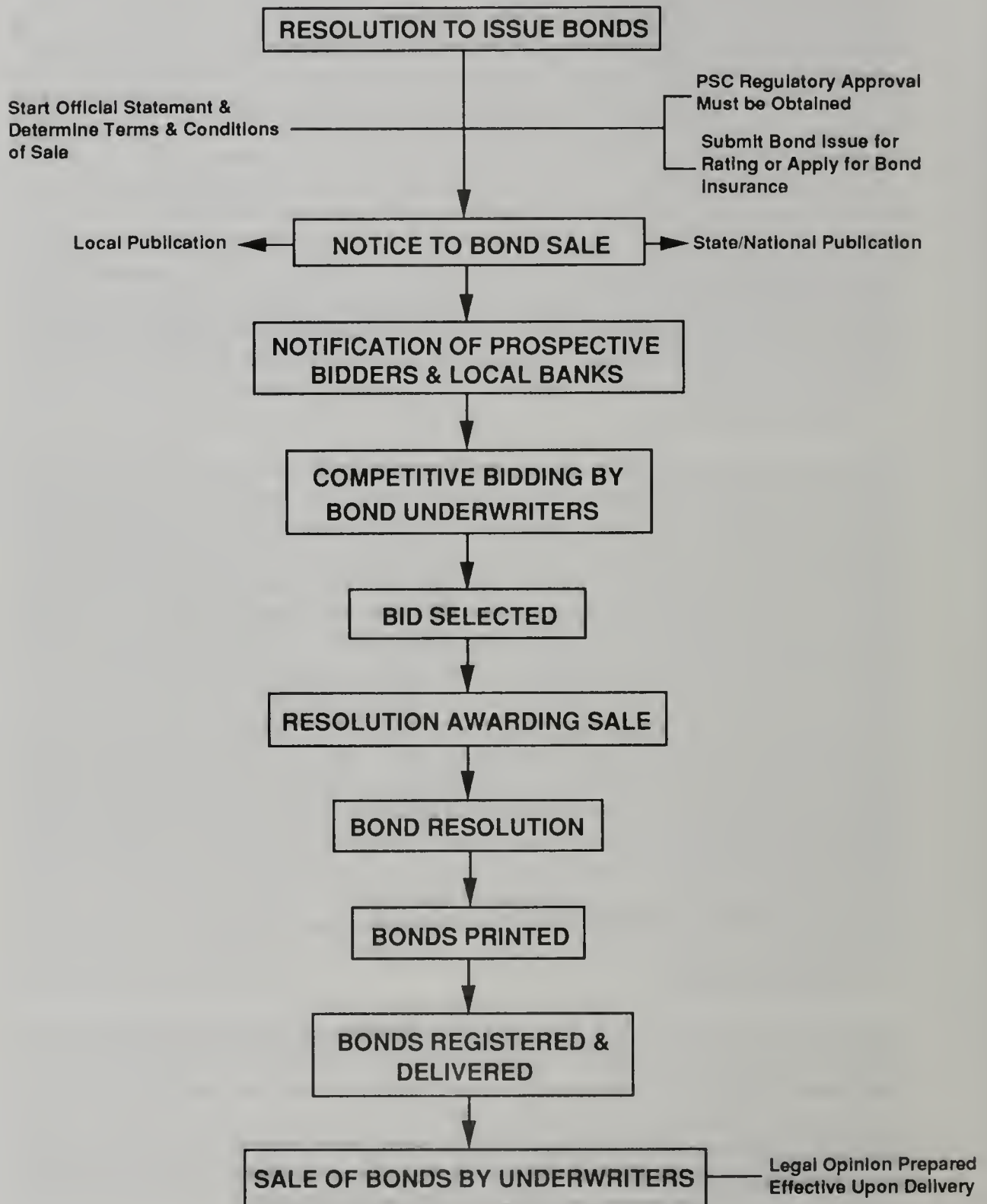
Interest rates are typically higher and the market not as diverse for revenue bonds because revenue bond issues are generally repaid through monies generated by the facility and are not backed by the unlimited taxing powers or the full faith and credit of the issuing government. The legal requirements for issuing revenue bonds are more complicated than that for general obligation bonds due to the fact that restrictive covenants are often attached to the bond which restrict facility operations (e.g., rate covenants). Since Montana statutes require that use of revenue bonds be limited to self-supporting projects or facilities, user fees or service charges may need to be revised several times over the life of the bond issue. Rate structure revisions may be subject to review by the Montana Public Service Commission, and will most likely be greeted by some disapproval by the users of the facility. Most revenue bonds have call provisions that allow the issuing government to retire the debt before final maturity or refinance the project. The call feature of many revenue bonds may deter some investors.

3. Special Assessment Bonds (SID's and RID's)

a. Purpose and Usage

Special assessment bonds are used to finance community improvements where the property benefitted by the improvements can be identified. Special assessment bonds may be issued to county or municipal governments to defray the costs of capital improvement projects in rural improvement districts (RID) or special improvement districts (SID). Bonds may be issued to pay for all cost incurred through construction or maintenance activities within the special districts. (Reference: counties, 7-12-2169, MCA; municipalities 7-12-4201, MCA.)

Figure 8: Revenue Bond issuing Process



Extensions of sewer or water systems are commonly financed through the issuance of special assessment bonds.

b. Issuing Procedures

The board of county commissioners or the city/town council may sell bonds to pay for the construction or operation and maintenance activities associated with special districts (RID or SID). The Notice of Sale, publication notice, and the procedures for bond sale follow the same provisions as those for general obligation or revenue bond issues, but are subject to different time frames. A public referendum is not required to determine if special assessment bonds should be issued; however, landowners within the special district initially have the opportunity to decide whether or not the improvement should be undertaken, which ultimately determines if the bond will be issued. Debt financed by special assessment bonds is not subject to Montana limitations on bonded indebtedness.

Special assessment bonds may be sold to an underwriter on a competitive basis, soliciting bids to obtain the lowest borrowing costs. After all legal bond documentation is prepared, the board of county commissioners or the city/town council may sell the bonds. The bonds create a lien on only that property benefitting from the improvement. Bond payments are also backed by the creation of revolving funds. (Reference: RID, 7-12-Part 21, MCA; SID, 7-12-Parts 41 and 42, MCA.)

c. Advantages and Disadvantages of Special Assessment Bonds

i) *Advantages*

The use of special assessment bonds to finance capital improvements is desirable because the burden of cost falls directly on the property owners benefitted by the improvements. Support of the local government's issuance of the bonds is generally favorable, since a majority of landowners within the improvement district have expressed their approval of the project. Local government may view the use of special assessment bonds as being quite advantageous for several reasons. First, the debt financed by these bonds is not subject to Montana limitations on bonded indebtedness. Secondly, the bonds may be issued without a bond election, which is usually time consuming and costly to the public. Finally, the issuance of these bonds requires little or no capital from the issuing government. State statutes also allow local governments to invest surplus reserves in U.S. securities or in certificates of deposit which will hasten the retirement of district debts.

ii) *Disadvantages*

Two of the primary disadvantages associated with the issuance of special

assessment bonds are directly related to the formation of improvement districts. Since the formation of an improvement district is seldom supported by all of the affected landowners, protesting landowners within the proposed improvement district may delay the project through procedures outlined in Montana statutes. If the protests result in a lengthy delay, increases in project costs may be significant enough to force cutbacks in or cancellation of the project. In addition, the assessment required of property owners within an RID or SID may unduly impact some individuals, especially in areas with a high percentage of low or fixed-income residents. In the event that property owners fail to pay their assessments, the local government may have to levy additional taxes to repay SID or RID revolving funds.

Since special assessment bonds are not backed by the full faith and credit of the issuing government, they represent a greater investment risk than bonds that have such backing. As a result, the bond market generally places a higher interest rate on these bonds than on other types. Administrative, legal and financial consultant costs may comprise a large percentage of the cost on some small improvement district projects. The flexibility of special assessment bonds is limited by Montana statutes regarding authorization, issuing procedures, and general bond provisions. Finally, local governments must be very careful in authorizing SID's or RID's for "raw land" subdivisions. If the lots do not sell, the revolving fund and, ultimately, the local government will have to "bail out" the district.

4. Refunding Bonds

a. Purpose and Usage

Refunding bonds are issued to retire an already outstanding bond issue. These bonds may be sold for cash and the outstanding bonds redeemed in cash, or the refunding bonds may be exchanged with the holders of the outstanding bonds. These bonds are generally issued to shorten the term of the outstanding bond issue, take advantage of a more favorable interest rate, eliminate restrictive covenants on the primary bond issue, reorganize the maturity schedule, or consolidate the community debt.

b. Issuing Procedures

In general, Montana counties or municipalities have the authority to issue refunding bonds for any purpose for which bonds were originally issued. Refunding bonds may be either general obligation or revenue bonds. Refunding general obligation bonds may be issued by Montana county or municipal governments, and are subject to the same statutory provisions governing the issuance of general obligation bonds, including limitations on bonded indebtedness (22.5% of the taxable valuation for counties; 28% of the taxable valuation for municipalities). A bond election is not required prior to

the issuance of refunding general obligation bonds. The bonds must be issued with a maturity of not more than ten years or for the remaining term of the outstanding bond issue if the unexpired term exceeds ten years. The interest rate on these bonds must be at least 0.5 percent lower than that of the outstanding bonds. Normally, a refunding issue should not be considered unless the new interest rate would be one to two percent lower than the rate on the bonds to be refunded.

Issuance of refunding revenue bonds does not require voter approval and the debt incurred through the use of these bonds is not subject to state limitations on bonded indebtedness. Refunding revenue bonds may be issued after the governing body of a municipality passes a resolution stating its intention to issue the bonds. (References: County general obligation, 7-7-Part 23, MCA; municipal general obligation, 7-7-Part 43, MCA; municipal refunding revenue bonds, 7-7-Part 43, MCA.)

c. Advantages and Disadvantages

i) *Advantages*

Refunding bonds provide local governments with an opportunity for flexibility in modifying the debt structure of a community. Use of refunding bonds is advantageous when substantial interest savings will occur by issuing a new lower yield bond to pay off a higher yield bond. Since no bond election is generally required, issuance costs to the local government are quite low. Municipal debt financed by refunding revenue bonds is not subject to Montana limitations on bonded indebtedness.

ii) *Disadvantages*

The savings realized by the issuance of refunding bonds must be significant enough to offset any accompanying administrative costs. In addition, Montana counties and municipal governments are subject to statutory provisions limiting indebtedness in the issuance of refunding general obligation bonds.

5. Pooling smaller local government bonds

a. Purpose

The Montana Board of Investments is authorized to buy bond or note issues from Montana local governments. The Board may then "pool" individual securities into a larger package which is sold as a single issue to the private investment community.

b. General Information

Eligible participants are "local government units", which means any municipal corporation or political subdivision of the state, including, without limitation, any city, town, county, school district, or other special taxing district. Participation by an eligible local government unit in the pooling mechanism is entirely voluntary.

The financing mechanism will not change the local government procedures for issuance of bonds as specified by Montana law and described in this book. Instead of marketing the bonds themselves, local government units may sell their bonds or notes to the Board. The Board may place conditions on the local government prior to accepting an issue for pooling. Thus, a local government should contact the Board's Administrative Officer prior to developing a bond issue. Contacting the Board at the beginning of the process will avoid misunderstandings or delays.

c. Contact

For further information contact:

Administrative Officer
Montana Board of Investments
Montana Department of Commerce
555 Fuller Avenue
Helena, Montana 59620
Telephone: (406) 442-1970

6. Summary of Bond Types

The major features of the previously mentioned types of municipal bonds are summarized in Table 2. This summary table is intended to present a brief side-by-side comparison of the major bond types that municipal and county governments in Montana often issue to underwrite the costs of water and/or sewer facilities.

	DESCRIPTION	ADVANTAGES	DISADVANTAGES
GENERAL OBLIGATION BONDS	Bonds pledge the unlimited faith and credit of the issuer. The required principal amount of general obligation bonds is limited by state law. These bonds are typically sold at a premium.	<p>Interest rates are typically lower than for other bond types.</p> <p>Bonds possess more marketability than other investment projects may be financed by bonds.</p> <p>The life of the project from an opportunity to invest the funds.</p>	<ul style="list-style-type: none"> • Voter approval is required to issue general obligation debt. • Bonds are subject to statutory limitations on amount of public indebtedness. • The time lag required by bonding procedures may increase construction costs. • A default on a bond issue may require the local government to raise taxes. • A complex credit analysis is required to market bonds. • If property taxes are used to pay off the debt, the project is being paid for by all property owners, instead of just those directly benefitted by the project.
REVENUE BONDS	Bonds pledge the revenue from a specific revenue source (generally a tax or fee) to be constructed to meet the payments. Bonds are issued by the issuer and the credit of the issuing agency.	<p>There are no statutory limitations on bonded debt.</p> <p>Interest rates are not burdened local taxpayers.</p> <p>The use of revenue bonds is straightforward and promotes sound financial management by the community to create reserve funds.</p>	<ul style="list-style-type: none"> • The use of revenue bonds is limited to projects that will be self-supporting. • The legal requirements for issuing revenue bonds are much more complicated than those for general obligation bonds.
SPECIAL ASSESSMENT BONDS (SID'S, RID'S)	Bonds are issued to pay for improvements in which the property owner has a direct interest. Principal and interest payments are levied on the special assessment on the improvements.	<p>The cost of the improvements falls directly on the benefitted property owners.</p> <p>Interest rates are required from the agency and enhanced through the property owners.</p> <p>The proceeds of the bond are invested in the district.</p> <p>Special assessment bonds are not subject to the same restrictions as general obligation bonds.</p>	<ul style="list-style-type: none"> • The project may be delayed due to protests by some impacted property owners. • Administrative costs may compromise a large percentage of small project costs. • Special assessments may unduly impact landowners in low-income areas. • In the event that property owners fail to make the required payment, local government may have to levy additional taxes to repay the revolving fund.
REFUNDING BONDS	Bonds are issued to retire an existing bond. These refunding bonds are issued at a lower interest rate than the outstanding bond. The refunding bonds may be general obligation or revenue bonds.	<p>Refunding bonds provide the opportunity for flexibility in the structure of the community's debt.</p> <p>Refunding bonds may not be subject to the same restrictions as general obligation bonds.</p> <p>Refunding bonds can be legally issued and can save interest expenses by paying off higher yield bonds to pay off higher yield bonds.</p>	<ul style="list-style-type: none"> • Cost savings must be significant enough to offset the accompanying administrative costs.

TABLE 2: SUMMARY OF MUNICIPAL BONDING FEATURES

	DESCRIPTION	PURPOSE	LEGALITY	CITIZEN OR POLITICAL ACCEPTANCE	ADVANTAGES	DISADVANTAGES
GENERAL OBLIGATION BONDS	Bonds pledge the unlimited taxing power and the full faith and credit of issuing government to meet the required principal and interest payments. The amount of general obligation debt that community can issue is limited by state law. Interest rates on these bonds are typically lower than for other bond types.	General Obligation Bonds are most often used by local governments to finance capital projects which benefit the entire community and whose cost should be defrayed over a long period of time.	<p>Authority to Issue Bonds:</p> <p>Municipalities 7-7-4201 MCA Counties 7-7-2202 MCA City-County 7-7-107 MCA</p> <p>Issuing Procedures - Sewers and Water Systems</p> <p>Municipalities 7-7-Part 42 7-13-Part 43 Counties 7-7-Part 22 7-7-Part 23</p> <p>Bond Limits</p> <p>Municipalities 28% of taxable value and additional 55% of taxable value for water/sewer (7-7-4201 and 4202, MCA) Counties 11.25% of taxable value for most purposes (7-7-2203, MCA) City-County 39% of taxable value and additional 10% of taxable value for water/sewer systems (7-7-107, MCA)</p>	Montana law (7-7-Parts 1, 42, and 7-7-223, MCA) require a bond election to allow citizens the right to approve or reject each issue. Procedures also exist to protest municipal bond elections (7-7-105, 106, MCA).	<ul style="list-style-type: none"> Interest rates are frequently lower than for other bond types. General Obligation Bonds possess more marketability due to the secure nature of the investment. Non-revenue producing projects may be financed through the use of these bonds. Debt can be retired over the life of the project from an equitable form of taxation. The community has the opportunity to invest the proceeds of the bond issue. 	<ul style="list-style-type: none"> Voter approval is required to issue general obligation debt. Bonds are subject to statutory limitations on amount of public indebtedness. The time lag required by bonding procedures may increase construction costs. A default on a bond issue may require the local government to raise taxes. A complex credit analysis is required to market bonds. If property taxes are used to pay off the debt, the project is being paid for by all property owners, instead of just those directly benefited by the project.
REVENUE BONDS	Bonds pledge the revenue from a particular revenue source (generally receipts from the facility to be constructed) to meet principal and interest payments. Bonds are issued without the full faith and credit of the issuing agency.	Revenue Bonds are used by local governments to provide initial financing of facilities or capital improvements that could be self-supporting from revenues generated over the life of the system.	<p>Authority to Issue Bonds:</p> <p>Municipalities 7-7-4421, MCA 7-7-4321 and 4322, MCA Counties 7-7-Part 44 and 7-7-Part 45, MCA</p> <p>Issuing Procedures:</p> <p>Municipalities 7-7-Parts 44 and 45, MCA 7-13-Part 43, MCA Counties Subject to same basic provisions as those for cities and towns.</p>	Since the use of revenue bonds is applied to self-supporting facilities, only persons directly benefitting from the services provided by the facility must bear the costs. Citizen concern is most often directed at the rates established to pay for the facility. In Montana, rate structures for water/sewer services are typically subject to approval by the Public Service Commission.	<ul style="list-style-type: none"> Users pay for the facility. Debt is not subject to Montana limitations on bonded indebtedness. Voter approval is not required. Default on the issue does not burden local taxpayers, but may increase utility rates. The credit analysis required is straightforward. The use of revenue bonds promotes sound financial management and allows the community to create, operate, maintain, and reserve funds. 	<ul style="list-style-type: none"> The use of revenue bonds is limited to projects that will be self-supporting. The legal requirements for issuing revenue bonds are much more complicated than those for general obligation bonds.
SPECIAL ASSESSMENT BONDS (SID'S, RID'S)	Bonds are issued to pay for public improvements in which the property benefitted can be identified. Principal and interest payments are made by a special assessment on the property benefiting from the improvements.	Special Assessment Bonds allow property owners the opportunity to amortize the capital costs of constructing the particular public facility over a number of years at a relatively low interest rate.	<p>General Procedures:</p> <p>Municipalities SIDs: 7-12-Part 41 and 42, MCA Counties RIDs: 7-12-21, MCA</p> <p>Improvement District Bonding Requirements:</p> <p>Municipalities SIDs: 7-12-Part 42, MCA Counties RIDs: 7-12-2169, MCA</p>	The burden of paying for a desired public improvement falls directly on the benefitted property owners. Special assessment districts are formed on the basis of the petition of a majority of property owners. Some opposition may occur from impacted landowners who do not favor the creation of the special district.	<ul style="list-style-type: none"> The burden of the costs falls directly on the benefitted property owners. A bond election is not required. Little or no capital is required from the agency. Public support is generally enhanced through involvement of the affected property owners. Local governments may invest the proceeds of the bond issue for the benefit at the district. Debt financed by special assessment bonds is not subject to debt limitations. 	<ul style="list-style-type: none"> The project may be delayed due to protests by some impacted property owners. Administrative costs may comprise a large percentage of small project costs. Special assessments may unduly impact landowners in low-income areas. In the event that property owners fail to make the required payment, local government may have to levy additional taxes to repay the revolving fund.
REFUNDING BONDS	Bonds are issued to retire an already outstanding bond. These refunding bonds may be sold for cash and the outstanding bonds redeemed in cash, or the refunding bonds may be exchanged with the holders of the outstanding bonds. These bonds may be general obligation or revenue bonds.	Refunding Bonds are generally issued to shorten the term of the bond issue, to take advantage of more favorable interest rates, to eliminate restrictive covenants affecting the primary issue, to reorganize the maturity schedule, or to consolidate a community's debt.	<p>Authority to Issue Refunding Bonds:</p> <p>Municipalities (G.O.: 7-7-4301, MCA) (Revenue: 7-7-4501, MCA) Counties (G.O.: 7-7-2301, MCA)</p> <p>Procedures and Requirements:</p> <p>Municipalities (G.O.: 7-7-Part 43, MCA) (Revenue: 7-7-Parts 45 and 46, MCA) Counties (G.O.: 7-7-Part 23, MCA)</p>	Citizen understanding and a clear statement of the purpose for issuing these bonds is necessary for acceptance by the public.	<ul style="list-style-type: none"> Refunding bonds offer the opportunity for flexibility in modifying the debt structure of the community. Debt financed by certain refunding bonds may not be subject to debt limitations. No bond election is required. Generally, any bond that can be legally issued can be legally refunded. The issuing agency will save interest expenses by issuing new lower yield bonds to pay off higher yield bonds. 	<ul style="list-style-type: none"> Cost savings must be significant enough to offset the accompanying administrative costs.

D. Other Long-Term Financing Methods

In addition to the long-term financing methods previously discussed in this chapter, several other methods may be effectively used to finance capital facilities. Methods discussed in the following narrative include: 1) industrial development revenue bonds; 2) capital improvements programming; and 3) lease-purchase agreements. The purpose of this section is to discuss the major features, usage, advantages and disadvantages of these alternatives. As communities become more and more fiscally conservative, the use of alternative methods of financing that reduce the long-term burden on local citizens has become increasingly important. These methods may have some limitations as financing sources for community water or sewer services, but may provide local governments with a means of paying for a portion of the costs associated with such systems.

1. Industrial Development Bonds

a. Purpose and Usage

Industrial development bonds, also known as industrial revenue bonds or industrial development revenue bonds, may be issued by a local government to aid industry in financing capital costs. These revenue bonds may be used to acquire or improve any land, building or other facility necessary to stimulate economic growth, attract industry, or provide services to protect the public health or welfare. Projects authorized to be funded by the issuance of industrial development bonds are identified in Montana statutes (90-5-101, MCA). The use of industrial development bonds within Montana has primarily been associated with commercial development. A portion of the proceeds from the sale of these bonds has typically been used to offset the cost of extending water or sewer services to the new commercial facilities. Income generated by the industrial or commercial facilities is used to repay the principal and interest on the bond issue. In case of a default, the bonds are secured through mortgages covering land and buildings or other encumbrances on property, such as equipment.

b. Issuing Procedures

Provisions for the issuance of industrial development bonds by municipal or county governments in Montana are specified in State statutes (90-5-102 through 90-5-110, MCA). Local government units issuing such bonds must apply to the Montana Department of Administration for allocation of authority to issue such bonds. Prior to issuing any bonds, local governments must hold a hearing on the proposed project to solicit comments from the public. Notice of the hearing must be published in a local newspaper for three weeks and must specify the time, date and place of the hearing; the nature of the project; the name or the user of the funds; and the estimated cost of the project. After

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public comments have been reviewed, the local government may not issue bonds unless the proposed project is in the public interest. Any bond provisions deemed to be in the public interest may be acceptable to the local government; however, the final maturity of the bond cannot exceed 30 years from the original date of issue. Industrial development bonds may be underwritten and marketed in the same manner as revenue bonds and are done so by negotiated sale.

c. Advantages and disadvantages of Industrial Development Bonds

i) *Advantages*

One of the major advantages associated with the issuance of industrial development bonds is that debt incurred through this financing method is not a liability to the community. The debt is retired by the industrial or commercial operations that used the bonds for financing. In addition, debt financed through the use of these bonds is not subject to Montana statutory limitations on bonded indebtedness for individual local governments. The use of these bonds also allows the local community to exercise some control over its economic future. Since a hearing on the proposed project is required before any bonds can be issued, the local government depends on its citizens to help determine the community's future. Industrial development bonds allow financing to be arrived at under terms that cannot be achieved through conventional financing sources. As a result, economic growth may occur at a desirable rate in a community which may have lacked the attributes to attract industrial or commercial activity.

ii) *Disadvantages*

Montana statutes impose limitations on the types of projects that may utilize the proceeds of the bond sale and identify acceptable project cost items. Since the community is not responsible for debt retirement, interest rates associated with industrial development bonds are generally the highest of all tax-exempt bonds. Unless an industrial or commercial enterprise has a good record of debt retirement and a financial structure to service the debt, the bond issue will most likely be difficult to underwrite and market. The local governing body can only use this financing technique in conjunction with private enterprise development; it does not initiate the project. This financing method is not suitable for community-wide water or sewer repair projects.

2. **Capital Improvements Planning and Financing**

a. Purpose and Usage

Capital improvements planning is the preparation and funding of a proposed

capital improvements plan (CIP) to be constructed by a local government over a period of time in the future (usually five years). The monies to pay for desired capital improvement projects may be generated by a special capital improvements fund or by other funding sources such as bonds, grants, user fees or loans. Montana statutes allow counties to derive this CIP fund from multiple levies; however, no more than ten percent of the money derived from any one levy may be appropriated to the fund. Municipalities utilizing an all-purpose levy may earmark up to five percent of the levy to pay for capital improvements. These funds are available to local government only if the governing body has adopted a CIP. This CIP is implemented through the preparation of the capital improvements budget, a detailed list of specific capital improvement projects outlining expenditures and revenues, which is adopted by the governing body as part of the annual budget. The funding for the projects is discussed and analyzed in the CIP.

b. Capital Improvements Planning and Financing Process

The capital improvements planning process is an organized and comprehensive method of planning and financing public works expenditures by a local government. The program allows local officials to make objective and informed decisions as to how their community will provide for its citizens by guaranteeing the most effective use of limited resources. The CIP process can help the local government reduce the costs of capital projects, making those projects more affordable and more feasible. The major steps in the process include:

- * Establish a CIP Committee: A committee of key officials and staff should be created. Someone with a background in financing should be appointed to coordinate and pull together the necessary information.
- * Identification of proposed capital improvements: Each department of local government is responsible for identifying the need, costs, possible financing sources, and a desired time table for the proposed project. For example, this information is prepared for the water, sewer, and street facilities.
- * Preparation of a community financial analysis: This analysis examines the community's ability to pay for the desired improvements. Current and future revenues and expenditures, tax burdens, bonding capacity, and the effects of alternate financing methods may be detailed in this analysis.
- * Prioritization of proposed projects: This step involves the evaluation and ranking of all proposed capital improvements projects. Factors used to set project priorities may include the project's relationship to community goals and planning efforts, the project's relationship to other projects,

available financial assistance, and cost effectiveness. For example, there are evaluation methods which can tell the public works staff whether it is more cost effective to repair water line breaks or to replace the lines. Public participation is also required in setting project priorities.

- * Preparation of a final capital improvements plan (CIP): After priorities have been established, the final CIP is prepared outlining projects, estimated completion schedules, and methods of financing each project.
- * Adoption of the CIP: Following adoption of the capital improvements plan, the governing body should adopt the first year of the plan (capital budget) as a portion of their annual budget. This capital budget will appropriate funds for the first year of the plan and commit local government to provide the revenue from the sources legally available to municipal or county governments.
- * Financing the projects: The heart of the CIP is the financing used to pay for specific projects. In order to prepare a CIP, the local government must make a comprehensive study of every financial option, including new or innovative options. Through this analysis, the least expensive and most appropriate financing may be obtained. The proposed financing for each project is specified in the CIP. Funding sources may include state and federal loans and grants as well as local revenues.
- * Annual review and update of the CIP: Capital improvement plans must be flexible enough to change as the community's priorities change. The annual review also allows the progress and performance of the program to be monitored. Annual review and revision of the CIP insures that the process will become a continuing part of the local government's budgeting procedures. When each year's improvements are completed, a new year is added to the plan so that the plan always summarizes public works needs and financing for 5 years into the future.

A CIP does not need to be complex, and may be tailored to fit the individual needs of a community.

c. Benefits of a Capital Improvements Plan

Capital improvement plans enable local governments to collect useful information regarding the condition of community facilities to allow for the orderly repair and replacement of capital facilities and equipment years ahead of the actual need. Advance planning and scheduling of these projects allows communities to avoid costly mistakes, save money, and make the best use of generally limited financial resources. A CIP is also a valuable financial tool, since analysis of the financial status of the community allows local

government to establish and maintain a level of spending that it can safely afford. In addition, the capital improvements planning process is an important step in securing federal or state assistance for proposed capital projects. Since most federal or state assistance programs require some sort of facilities planning, communities that have adopted a CIP may be in a favorable position to receive such funding. This type of planning activity is also beneficial in obtaining a good community credit rating, which is necessary to market municipal bond issues. Finally, the CIP is a valuable public education tool. By publishing the plan in the paper and distributing copies to the public, the governing body can inform the citizens about the needs, benefits, and costs of making critical public works improvements.

d. CIP Handbooks

The Montana Department of Commerce Community Technical Assistance program (CTAP) has two easy to use handbooks on how to prepare a CIP. There is a special "Mini CIP" especially for small towns. The handbooks include financing options. Call 444-3757 for details.

3. **Leasing**

a. Purpose and Usage

Leasing is a financing method that local governments may use to obtain capital facilities without issuing municipal bonds. Two forms of leasing most often used by local governments are the traditional operating lease and the lease-purchase agreement. Traditional operating leases are often used to acquire the use of relatively small capital items without a direct purchase. Lease-purchase agreements are used by units of local government to acquire any property or equipment that a supplier is willing to sell on an installment basis. These agreements allow local government to lease the facilities from a private firm; after a specified period of time, the government acquires full ownership of the facility. If the lease agreement requires purchase of the facility, the cost comprises a share of the government's indebtedness.

b. Advantages and Disadvantages of Leasing

i) *Advantages*

The primary advantage offered to local government through the use of lease agreements is that impacts on community debt limitations may be avoided if the lease agreement is properly structured. In addition, the costs of entering into the lease agreement may be less than those incurred if municipal bonds are issued. Acquisition of capital facilities may occur faster through leasing than with the use of debt financing.

ii) *Disadvantages*

Although this financing method is commonly used to acquire capital facilities and equipment, use of leasing is limited in regard to water or sewer facilities. this method may be used for some components of such systems (e.g., monitoring equipment), but other financing methods which defray costs over a longer period than lease agreements are most often used. Lease financing requires that annual or semi-annual lease payments be budgeted from current revenues. Other long-term financing methods allow debt to be retired from revenue produced by the facility itself. The Tax Reform Act of 1986 reduced the advantages to private investors regarding lease-purchase financing. Thus, local governments that want to take advantage of lease-purchase financing may have difficulty finding firms willing to set-up the financing.

E. Short-Term or Interim Financing

1. General

Short-term or interim financing is often used by local governments to even out cash flows, to take advantage of lower interest costs, to pay for engineering design work, and to provide initial construction financing. This financing method allows governments to meet operating expenditures or financial commitments when revenue is not "in hand" but is anticipated. Short-term borrowing is most often used by local governments to avoid making long-term commitment at high rates of interest. This short-term debt may be turned into a long-term obligation once conditions in the municipal bond market improve. This use of short-term financing allows project construction to begin as scheduled, even though interest rates for long-term obligations may be unduly high. Use of short-term financing methods can be of great benefit to local government; however, care must be taken to insure that short-term debts do not become additional long-term commitments. The following narrative briefly identifies several forms of short-term or interim financing available to local governments.

2. Methods of Short-Term Financing

a. Reserve Funds

The establishment of reserve funds for capital improvements is a financing method which allows local governments to pay for improvements in cash instead of borrowing against future revenues. Reserve funds for future expenditures can be accumulated by annual increments or by setting aside unanticipated income until the balance of the account is large enough to undertake the capital improvement. Typical sources of reserve funds include

earmarked operational revenues, depreciation accounts or proceeds from the sale of capital assets such as property. Reserve funds constitute a sound method of financing since local governments are not required to incur indebtedness for the proposed improvement; however, the funds required to undertake necessary capital improvements may take a long time to accumulate. If the reserve fund is insufficient to pay for a needed improvement, alternate forms of financing, most often debt financing, must be used to supplement the fund. The use of reserve funds may be advantageous to small communities where large capital improvements do not occur often. One drawback to the use of this method is that unless interest from the investment of the reserve fund is well managed, any gains in revenue may be offset by losses to inflation. The use of water/sewer reserve funds for municipal governments is regulated by the PSC. PSC restrictions on reserve funds limit the amount of money that can be saved.

b. Warrants

A warrant is an order drawn by a government unit directing the treasurer of the issuing government to pay a specified amount to the person named or the bearer. This traditional short-term security is often directly placed with a bank. In the municipal bond market, warrants may be attached to bonds and allow investors to purchase future bonds at the same price and interest rate as the original bond issue during a specific period. Warrants are usually repaid with bond proceeds, user fees, or tax increases.

c. Bond or Grant Anticipation Notes

Bond or grant anticipation notes provide a means of financing in anticipation of a future bond issue or grant award. These notes are traditionally issued as a bridge between the start of a project and eventual long-term financing through the issuance of municipal bonds.

The least secure of all the notes issued by local governments are bond anticipation notes. Their security is dependent upon the local government's ability to issue the bonds keyed to the notes. Use of bond anticipation notes in lieu of long-term bonds is primarily done to take advantage of lower interest rates. The issuer hopes to gain access to the market at lower long-term rates when the notes mature (generally in one to three years). Initial use of bond anticipation notes may ultimately reduce total project costs.

F. Local Revenue Sources

1. General

Since financial assistance in the form of federal or state grants underwrites only a small portion of the total cost of new construction or improvements to existing water or sewer facilities, local governments most often issue some form of bonds to pay for the remaining share of the costs. Repayment of this debt is the responsibility of the community, except in the case of special districts where property owners benefitted by the project must retire the debt. The principal methods of debt retirement are through additional taxation or an increase in the user fees charged the consumer. The following narrative identifies the sources of local revenue that are available for repayment of debt incurred for water and/or sewer projects. In addition, this section contains a discussion of the general usage of these methods, a summary of procedural requirements for each method, and a discussion of the advantages and disadvantages inherent to each method.

2. User Fees

a. General

Inflation, high labor costs, I-105, and the growing citizen demand to check tax increases have reduced the revenue available to local governments and made it increasingly difficult for local officials to provide the same levels of service that they have in the past. Local governments are faced with three alternatives to remedy the problem, including increasing revenues, reducing the quality and quantity of services, or finding means to cut the cost of services. Local governments obviously prefer the last option. In view of the fact that resistance to increases in local property taxes is growing, it is obvious that communities must meet their needs from sources of revenue other than property taxes. User fees present local governments with a source of revenue that is equitable and generally accepted by the community.

User fees can be defined as the amount of revenue that a local government may receive from the public from the performance of specific services benefitting individuals or commercial or industrial concerns within the community. User fees place the burden of paying for certain services on the individual benefitting from the service. This is in contrast to taxation, which may not be directly related to the value of a specific service received by an individual. User fees are not a cure-all for the financial problems faced by local governments; however, an increase in fees which equitably and directly places the cost of providing certain services upon the persons benefitting from them may be a more acceptable option to local governments and citizens than a tax increase.

b. Applicability of User Fees

User fees are an appropriate means of financing community services whenever the direct benefit that an individual, commercial or industrial enterprise receives can be determined. It is appropriate to impose user fees whenever government provides a service to an individual, firm or group that it does not provide to the general public. If user fees are not received from special services provided to select groups, the recipients of the service are subsidized by local taxpayers.

User fees are inappropriate when non-payers cannot be excluded from the benefits of receiving community services. If non-paying users are allowed to receive community services, those paying for the service will soon realize that they may also receive the service at no charge. If this situation occurs, the revenue necessary to provide the community service may eventually disappear. If a program provides community-wide benefits, the local government may forego a user charge system and subsidize the service. Typically, all water and sewer systems should have a user fee for operation of the system. The question is whether or not major improvements should be paid for with a user fee increase for debt retirement. For a variety of reasons, user fee increases are used to retire debts for improvements.

c. Advantages and Disadvantages of User Fees

i) *Advantages*

The implementation of user fees for selected community services offers several advantages to the community. If properly assessed, user fees can provide alternate sources of revenue, prevent waste and unwarranted expansion of services, and distribute services in an equitable fashion. Since attempts to increase property taxes are often limited by statutes or citizen disapproval, local governments have begun to diversify their revenue sources to become less dependent on property taxes as a revenue source. User fees provide a form of revenue that is more acceptable to the general public because user charges directly connect the cost of providing a particular service with the benefits received from the service. Citizens may therefore be more tolerant of future increases in user fees than they would be of tax increases.

User fees may also inhibit waste and prevent unwarranted expansion of community services. Under the user fee system, government managers must search for efficient methods to conduct their operations because their budgets usually consist only of revenues collected by user fees. Such charges also provide governments with information from consumers about the kind, quality and quantity of service that should be provided. As a result, the willingness of people to pay for the service is an important indicator of whether or not the service should be continued. Under a user fee system, any

expansion of community services is matched by an increase in revenue from new users.

User fees also distribute services on an equitable basis within the community.

ii) *Disadvantages*

User fee systems do not provide for payment by undeveloped property or for the benefit of having capacity built into the community service, whether or not it is used. In addition, the user fee system does not permit distribution of charges according to the general community benefit that results from having services that protect the public health, eliminate nuisances, or enhance the overall community living environments.

d. Calculation of Sewer and Water System User Fees

One of the most common applications of user fees is as a revenue source to pay for the costs of community sewer or water service. Wastewater user fees provide financial support of community water and facilities based on a calculation method that reflects the actual physical use of the system, such as:

- * Volume of water and wastewater;
- * Volume of wastewater and quantity of pollutants (industrial uses)
- * Number or size of sewer connections;
- * Type and usage of property;
- * Number and type of plumbing fixtures in rooms; or
- * Household size.

This system permits fair charges to churches, schools, organizations or other governmental units that are not required to pay property taxes yet still use community water and sewer facilities. The wastewater user charge system constitutes a very stable source of operating funds for the system. This stability allows communities to plan for the future and upgrade or expand facilities when necessary.

User fees for the provision of community water systems are most often based on the metered usage of water, which provides the most practical means of determining consumer water use. If water use is not metered, a uniform charge or flat rate may be made to each house or building connected to the system, or a fixed charge may be assessed to each class of customer (i.e., residential, commercial, or industrial users). This system is simple and easy to

administer; however, the flat rate system does not reflect the extent of use. Thus, communities that do not have meters should install them to make the fee system more equitable, and to improve financial efficiency.

Since most of the water supplied by community water systems will ultimately pass through the community's wastewater system, water records may be used to establish wastewater user fees. Typically, water use is closely monitored during the non-irrigation season, and it is assumed that water consumption during this period will be the same as the total wastewater flow. Average household rates for water consumption and sewer system user fees can then be calculated on the basis of this "base" period to offset the operating expenses of wastewater facilities. Rates during the remainder of the year are determined by the amount of water used above or below the average household rate. Rates for commercial or industrial concerns may be determined by equating water consumption to equivalent household units. For example, a laundromat may generate ten times the amount of wastewater that an individual household does; thus, the wastewater system charge would be equivalent to ten household units. If a community does not have a metered water supply, standards are available that will allow local governments to levy appropriate wastewater charges. Various publications covering these matters are available through the Montana Water Quality Bureau (444-2406) or the Environmental Protection Agency's office in Helena (449-5432).

e. Connection and Plant Investment Fees ("Hook-up" Fees)

Financing plans of water and sewer projects may include a one-time initial charge to the user for connection into the municipal system. This fee, payable at the time the connection to the system is made, may comprise one of the principal sources of municipal wastewater revenues. These fees are usually assessed to compensate the governing entity for one or more of the following: 1) costs for the local authorized officials to inspect the installation of the connection; 2) any materials and installation costs associated with the actual service connection that are not paid for directly by the land owner including pipe, meters, asphalt removal and replacement, etc.; and 3) facility investment fees which include the replacement value assessed to a new development for its proportionate share of the existing collection, distribution and/or treatment facilities that the development will subsequently be using. Since these types of fees are usually flat rates, the charge is not responsive to inflation; however, automatic adjustments in these fees may be established to compensate for inflation. The establishment, collection and disbursement of these fees is the responsibility of the system manager, whether that is the local government or a special authority, such as a county water/sewer district.

Many Montana local governments have set artificially low hook-up fees in the past. By a careful examination of the true current and future costs of connecting new water and sewer users, a more realistic fee can be established.

Engineering and finance consultants may be useful in establishing the preferred fee. For example, the consulting firm of Brown and Caldwell helped the City of Bozeman to readjust its connection charges based on the real costs of providing the services.

3. Improvement Districts (SID's and RID's)

a. General

An improvement district is a legal mechanism through which the costs of public improvements are allocated by special assessment taxes on properties benefitting by the improvement. Improvement districts are generally formed by local governments or through the initiative of property owners to deliver a desirable community service or improvement to an area where such services or improvements are presently not available. These districts allow the construction and financing of the improvement quickly through the sale of special assessment bonds, while repayment of the project costs occurs over a long period of time through assessments on property within the improvement district. Since the municipal bonds sold to finance improvement districts are tax-exempt, costs to property owners can be less than with private financing.

The following narrative identifies and discusses the two types of improvement districts commonly formed to provide or extend water and/or sewer services to urban or rural portions of communities.

b. Special Improvement Districts (SID)

i) *Authorization*

Municipal governments in Montana have the power to create Special Improvement Districts and order the construction or reconstruction of sewer or water works within the District whenever the governing body judges that the project is in the public interest or convenience. A SID may also be created to purchase an existing sewer or water system (such as a privately owned system). The governing body has the power to levy and collect property assessments within a designated Special Improvement District. Landowners may also petition local government to create an SID. These districts may include properties abutting the city if less than 40 percent of the property owners outside the city limits protest the creation of the district and a joint resolution by county and municipal government is passed.

ii) *Procedural Requirements*

The formation of a Special Improvement District is subject to the procedural requirements established in Montana statutes (Title 7, Chapter 12, parts 41 and 42). These statutes outline the legal requirements concerning SID formation,

public involvement, bid procedures, special assessment bonding, and SID implementation. Table 3 outlines the major requirements and corresponding government actions necessary to legally form an SID in Montana. References to legal provisions contained in Montana Code Annotated have been included for further research.

iii) Financing Options for SID's

The primary source of financing for SID water or sewer projects is the property owners within the district. Municipal governments are empowered to issue special assessment bonds to pay for the improvements within the district, and property owners within the district are assessed to repay the bond issue. In Montana, the assessments to property owners may be based on several methods, including total parcel or lot area, lineal feet of frontage abutting city streets, utility service connections option, or any combination of options.

Federal and state funds may also be available for some SID water or sewer projects. Community Development Block Grants, Coal Board Grants and FmHA Water and Waste Disposal Loans and Grants may be used for such projects, provided application procedures and eligibility requirements are met. Community Development Block Grants are administered by the Montana Department of Commerce and may be used for the payment of special assessments levied against properties owned and/or occupied by "low and moderate income persons". Coal Board grants for sewer and water projects in SIDs are available to counties and municipalities designated as coal development impact areas and to the remainder of Montana communities and counties in coal development areas at the discretion of the Coal Board. Farmers Home Administration funding may also be utilized by special districts to finance portions of the construction cost of necessary sewer or water services.

iv) SID's for Undeveloped Subdivisions

Municipalities should exercise financial caution if SID's are proposed for undeveloped "raw land" subdivisions. If the subdivision developer is unable to sell the lots, the assessments may not be paid and the developer may default on his or her obligations. This has happened in several municipalities. In these cases, the municipalities and the taxpayers have had to "bail out" the districts. Financial policies can be established to prevent this problem. The Community Technical Assistance Program publishes several booklets on this issue (444-3757).

TABLE 3

FORMATION AND OPERATION OF SPECIAL IMPROVEMENT DISTRICTS FOR MUNICIPAL GOVERNMENTS

REQUIREMENTS	REQUIRED GOVT. ACTION
<p>1. Resolution of Intention to Create an SID</p> <ul style="list-style-type: none"> * Notice that city/town intends to to propose SIDs * Delineate SID boundaries * Decide on type and extent of improvements * Determine approximate cost * Specify the method(s) of assessing the cost against the property * Identify SID by number * State whether or not an extended SID is created 	<p>Resolution of Intent to Create an SID must be passed by Council</p> <ul style="list-style-type: none"> * Local government may order the creation of an SID whenever the district serves the public interest or convenience * Local residents may request the governing body to form an SID by petition of all property owners in the proposed district
Reference: 7-12-4102 through 7-12-4104, MCA	
<p>2. Public Notification</p> <ul style="list-style-type: none"> * Describe general character of of improvements * Supply cost estimate for proposal * Describe the method(s) of assessing the cost against the property * If the proposal is for the purchase of an existing improvement, the notice must state the exact purchase price * Make reference to Resolution of intent as source of specific SID information 	<p><u>Notify Public by Newspaper</u></p> <ul style="list-style-type: none"> * Must be published for five days in daily newspaper or in one issue of weekly newspaper * If no newspaper is published in the community, notices must be posted in three public places for five days * Affidavit of Publication is required <p><u>Notify Public by Mail</u></p> <ul style="list-style-type: none"> * Mail notification to every person, firm, and corporation having property within the district on the same day notification is first published or posted

TABLE 3 Cont.

REQUIREMENTS	REQUIRED GOVT. ACTION
Reference: 7-12-4105 through 7-12-4108, MCA	<p>** If petition to form SID is signed by all property owners in the proposed district, local governments may adopt a Resolution of Intention without Publication or posting of the Resolution</p>
3. Protest Hearing	
<p>* Written protest must be filed by affected property owners within 15 days of the first publication of Notice; the protest must identify the property owned by the protestor and be signed by all owners of the property (7-12-4110, MCA)</p>	<p>* City/Town Clerk must endorse the protest with the date and time of filing</p>
<p>* Affected property owners may protest in person at the public hearing (7-12-4112, MCA)</p>	<p>* Council/Commission shall hear protests and decide on questions at the next scheduled meeting after the 15-day protest period ends</p>
<p>* To block the formation of the district, a protest must be signed by those property owners whose property would be assessed for more than 50% of the cost of the proposed work (7-12-4113, MCA)</p>	<p>* If no protests are filed or if protests are judged insufficient, the Council/Commission may draft a resolution creating the SID</p> <p>* The issue shall be tabled for six months</p> <p>* In the case of the construction of sanitary sewer improvements, a majority vote of the Council/Commission may overrule a protest unless it is made by those property owners whose property would be assessed for more than 75% of the cost of the proposed work</p>

TABLE 3 Cont.

REQUIREMENTS	REQUIRED GOVT. ACTION
4. Creation of SID	
* Draft resolution cresting SID (including allocation of assessments and purpose) (7-12-4114 and 7-12-4115, MCA)	* Council/Commission must adopt Resolution to Create SID in accordance with Resolution of Intention
* Publish notice calling for Bids on the work. In this notice, set time of bid opening as least ten days from last publication of the notice; state that bid security must accompany the bid; and state that bids must be delivered to the Clerk (7-12-4141, MCA)	* Notice must be published at least twice daily, semi-weekly, or weekly in community newspaper * If no paper is published in the community, notice must be posted in a public place
* Evaluate bids (7-12-4142, MCA)	* Council/Commission must open and read bids in public session * Local government may reject the bids and readvertise if in the public interest
* Award contract to the low Bidder (7-12-4143 and 7-12-4145, MCA)	* Council/Commission awards bid to lowest responsible bidder * Bid security is held until the contract is signed * Council/Commission must re-advertise if contractor does not sign contract within 15 days of notice of award (7-12-4149, MCA)
* If all bids are rejected or no bids are received (7-12-4144, MCA)	* Council/Commission may readvertise any time within two years
5. SID Implementation	
* Assessment of Costs	* Council/Commission shall adopt the desired method of assessment

TABLE 3 Cont.

REQUIREMENTS	REQUIRED GOVT. ACTION
Area Option Frontage Option Combined Option Utility Service Connections Option	(7-12-4179, MCA) * Council/Commission must pass a resolution to levy and assess tax on district property (7-12-4176 through 7-12-4178, MCA)
* If more than one type of improvement is undertaken, each lot or parcel of land in the district need not be assessed for the cost of all the improvements (7-12-4161 through 7-12-4164, MCA)	* Council Commission must assign responsibility for assessment collection to County Treasurer, City Treasurer, or Town Clerk
* Collection of Assessments (7-12-4181, MCA)	* Revenue collected from assessments shall be placed in SID fund (7-12-4180, MCA)
* Use of Bonds and Warrants (7-12-4203 through 7-12-5600 et. seq., MCA)	* Council/Commission shall sell bonds or issue warrants to pay for improvements within district according to legal bonding procedures * Council/Commission may establish SID revolving fund by ordinance to secure prompt payment of bonds and warrants * Recent legislation allows local governments to issue SID bonds without revolving fund backing. Government may, by resolution, provide that bonds and warrants be payable solely from SID fund and have no claim against revolving fund * A city may issue refunding bonds for districts (7-12-5600 et. seq.,)

c. Rural Improvement Districts (RID's)

i) *Authorization*

The Board of County Commissioners is empowered to order and create Rural Improvement Districts whenever the formation of such a district is in the public interest or convenience. In addition to properties within a county, these districts may include properties abutting or within a city, provided that less than 40 percent of the property owners inside the city limits protest the creation of the district. These districts are commonly created to extend community water and sewer services into developing areas adjacent to cities.

ii) *Procedural Requirements*

The procedural requirements for the formation of Rural Improvement Districts are established by Montana statutes (Title 7, Chapter 12, Part 21). These statutes detail all legal requirements relating to such districts and specify procedures for formation, public involvement and protest, bid solicitation and award, special assessment bonding, and operation and maintenance of the district. Table 4 summarizes the major requirements of RID formation and identifies the actions required of county government to assure conformance with Montana statutes. Identification of specific provisions relating to RIDs has been included in this table for reference purposes.

iii) *Financing Options for RIDs*

Methods of financing Rural Improvement Districts are similar to those applicable for Special Improvement Districts. Special assessment bonds are repaid through assessments to individual property owners within the district. Due to the nature of properties generally included in these districts, methods of assessment vary somewhat from those used for SIDs. The assessments for RIDs are generally based on the relationship between the individual property area and the entire area of the district. If the RID is located more than five miles from an incorporated city or town, the assessment may be based upon the assessed value of the property within the district, at the option of the County Commissioners. Additional funding for RID costs may be available from the community Development Block Grants Program, the Coal Board, or the Farmers Home Administration, provided application and eligibility requirements are satisfied.

iv) *RID's for Undeveloped Subdivisions*

Counties should exercise financial caution if RID's are proposed for undeveloped "raw land" subdivisions. If the subdivision developer is unable to sell the lots, the assessments may not be paid and the developer may default on his or her obligations. This has happened in several counties. In these

cases, the counties and the taxpayers have had to "bail out" the districts. Financial policies can be established to prevent this problem. The Community Technical Assistance Program publishes several booklets on this issue (444-3757).

d. Advantages and Disadvantages of Improvement Districts

i) *Advantages*

The primary advantage of financing water or sewer system extensions through the creation of an improvement district is that the construction costs of new improvements are borne by those property owners directly benefitted by the improvements. These districts provide an effective method of raising money to finance public improvements without utilizing general fund revenues, since revenue generated through property assessments within the district is used to repay special assessment bonds and meet the costs of providing services. In addition, the long-term repayment of improvement district costs minimizes the financial impacts on property owners within the district. Since SIDs are RIDs are relatively easy to create, improvements may be enacted quickly, provided the district complies with statutory provisions. Formation of these districts may be acceptable to the public when the proposed facilities or improvements will clearly provide a service needed by everyone in the district.

ii) *Disadvantages*

Costs associated with the administration of RIDs and SIDs by local government may be quite high and requires expenditures of time and energy even if no local government monies are involved. Improvement districts may also cause assessments to be made against some residents who do not want or cannot afford the project. This situation most often occurs in areas with low- or fixed-income property owners. Since individuals may protest the creation of special districts, significant delays may occur which result in increased project costs. In addition, the manner in which costs for SIDs or RIDs are assessed is likely to create inequities for some property owners within the district. Finally, several districts formed in undeveloped subdivisions have failed to meet their financial obligations, thus necessitating a bail out by the municipal or county governments. The money to pay for the bailout comes from higher taxes.

iii) *Special Consideration - Court Ruling*

The Montana Supreme Court has ruled that SID assessments must "be in proportion to the benefits conferred by the improvement". (Tocci and Surdahl v. City of Three Forks, 42 State Reporter, May 23, 1985). Thus, local governments must be careful in how they set up the property assessment system. Failure to link the property owner's assessment to the degree of benefit provided by the improvement may constitute grounds for a negative judgment against the local government.

TABLE 4

FORMATION AND OPERATION OF RURAL IMPROVEMENT DISTRICTS FOR COUNTY GOVERNMENTS

REQUIREMENTS	REQUIRED GOVT. ACTION
1. Resolution of Intention	
* Designate number of district	* County Commissioners must pass Resolution of Intention
* Describe boundaries of district	
* Decide type and extent of improvements	
* Estimate approximate cost of improvements	
* Specify the method(s) by which the costs of the improvements will be assessed against property in the district	
* Designate name of engineer in charge	
Reference: 7-12-2102 and 7-12-2103, MCA	
2. Public Notice	
* Describe character of improvements	<u>Notify Public by Newspaper</u>
* Estimate costs of improvements	* Publish in daily newspaper or two issues of weekly newspaper published closest to the place where the RID is to be created
* Describe generally the method(s) by which the cost of the improvements will be assessed	
* Establish time and place where Commissioners will hear protests	* Notice must be published twice, with at least six days separating publication
* Include reference to Resolution	* Notice must be posted in three

TABLE 4 Cont.

REQUIREMENTS	REQUIRED GOVT. ACTION
of Intention for district boundaries description	public places within the proposed district
	* Affidavit of Publication is required
	<u>Notify Public by Mail</u>
	* Mail notification to every person, firm, or corporation having property in the district on the same day that notification is first published or posted
Reference: 7-12-2104 through 7-12-2107, MCA	
3. Protest Hearing	
* Written protests may be filed by affected property owners within 15 days of first publication of notice of passage of Resolution of Intention (7-12-2109, MCA)	* County Clerk must endorse the protest with date filed
* Affected property owners may protest in person at the hearing (7-12-2111, MCA)	* At next regular meeting of the County Commissioners after the protest period ends, Commissioners shall hear protests and make a decision on the RID
	* If no protests are filed or if protests are judged insufficient, Commissioners will have immediately acquired jurisdiction over improvements and may draft a resolution creating the RID
* To block formation of a district, a protest must be signed by those property owners whose property would be assessed for more than 50% of the cost of the proposed	* The issue shall be tabled for six months
	* In the case of sanitary sewer improvements, protests may be

TABLE 4 Cont.

REQUIREMENTS	REQUIRED GOVT. ACTION
work (7-12-2121, MCA)	overruled by unanimous vote of Board of County Commissioners
4. Creation of RID	
* Draft resolution creating RID (7-12-2113, MCA)	* County Commissioners must pass resolution to create RID in accordance with Resolution of Intention
* Publish notice calling for bids on the work	* Publish at least twice in a daily, weekly, or semi-weekly newspaper published and circulated closest to the boundaries of the RID
* Set time of bid opening not less than 15 days from the last publication of notice	
* State that bids must be accompanied by bid security	
* Deliver bids to County Clerk (7-12-2131 through 7-12-2133, MCA)	* Post a copy of the notice in three public places of the proposed district
* Evaluate bids (7-12-2135, MCA)	* Commissioners must open and read bids in a public session
	* Commissioners may reject bids and readvertise if in the public interest
	* Commissioners award contract to lowest responsible bidder
* Award contract to lowest bidder (7-12-2135, MCA)	* Bid security is retained until contract completed (7-12-2137, MCA)
* If all bids are rejected or no bids are received (7-12-2136, MCA)	* Commissioners may readvertise for bids within six months after the initial bid date

TABLE 4 Cont.

REQUIREMENTS	REQUIRED GOVT. ACTION
5. RID Implementation	
* Costs are assessed for each lot or parcel based on the relationship between its area and the area of the entire district	* County Commission must adopt a method of assessment as pre-prescribed in Montana statutes
* If RID is more than five miles from an incorporated city or town, assessment may be based on assessed value	* County Commissioners must pass a resolution to levy and assess tax on property in the district (7-12-2158 through 7-12-2165, MCA)
* Assessments are collected	* County Treasurer has the responsibility to collect assessments (7-12-2163, MCA)
* Funds of a RID needed to service and/or pay off the debts for the construction of the improvements may be transferred to the district's maintenance fund (7-12-2182, MCA)	* Revenue collected from assessments shall be placed in RID fund (7-12-2162, MCA)
* Bonds and Warrants drawn against fund (construction or maintenance) created for RID (7-12-2171 through 7-12-2500 et. seq., MCA)	* Board of County Commissioners shall sell bonds or issue warrants to pay for improvements within district in accordance with legal bonding procedures and provisions
	* RID revolving fund shall be established by ordinance to secure prompt payment of RID bonds and warrants
	* Local governments may issue RID bonds without revolving fund backing. Governing body may, by

TABLE 4 Cont.

REQUIREMENTS	REQUIRED GOVT. ACTION
	resolution, provide that bonds and warrants be payable solely from RID fund and have no claim against revolving fund
	* In order to better market RID bonds, a County may pool bonds from separate RID's within the County and issue bonds combined in a single offering (7-12-2200 et. seq., MCA)
	* A County may issue refunding bonds for districts (7-12-2500, et. seq., MCA)

4. County Water and/or Sewer Districts

a. General

Water and sewer districts are generally formed to provide a service in rural areas that is not being delivered or cannot be delivered by the existing governmental structure. These quasi-municipal units are created by the county at the request of residents within a proposed service district. The district is governed by a board of directors elected by the residents within the service district.

County water and/or sewer districts may be organized, incorporated, and managed for the purpose of providing such services to residents within a designated district. Initially these districts may be created by a petition signed by at least ten percent of the registered voters within the area included in the district. This area may consist of property in more than one county and may include portions of cities or towns.

b. Procedural Requirements

After local residents have presented county government with a petition requesting the creation of a water and/or sewer district, the Board of County Commissions is required to hold a public meeting to hear protests from residents of the proposed district. Based on a review of the petition and the

public hearing proceedings, the governing body may modify district boundaries to better serve the public interest. The governing body then calls for a referendum of property owners within the district. If a majority of at least 40 percent of the registered voters within the proposed district approve, the water and/or sewer district may be incorporated. Incorporation allows the district to construct, operate and maintain water and/or sewer systems within the district; to borrow money or issue bonds; and to levy taxes on properties within the district to retire debt incurred by the district. Residents of the district are required to elect a three- to five-member board of directors to oversee the operations of the district. Table 5 summarizes the basic procedural requirements of county water and/or sewer districts and identifies specific statutes that apply to these procedures.

Table 5

FORMATION AND OPERATION OF
COUNTY WATER AND/OR SEWER DISTRICTS

1. Petition to Create County Water and/or Sewer District (7-13-2204, MCA)
 - * Must be signed by ten percent of the registered voters of the territory included in the district and presented to the County Commissioners at a regular meeting
 - * If the district lies in more than one county, the petition must be presented to all boards of county commissioners involved
 - * The petition shall define the boundaries of the district
2. Public Notification of Petition (7-13-2205, MCA)
 - * Text of petition must be published once a week for two consecutive weeks in a county newspaper
 - * Included with the publication of the text must be the time and place of the meeting at which the petition will be presented
 - * Publication of the petition must be at least two weeks prior to its presentation
3. Hearing on Petition (7-13-2206, MCA)
 - * Board of County Commissioners shall hear petition and testimony from those presenting the petition
 - * Board of County Commissioners shall also review written protests filed with the County Clerk & Recorder prior to the hearing
 - * After review of petition, protests and presentation of all relevant testimony, the Commissioners shall make a decision on the boundaries of the district and give notice of an election to determine if the district should be incorporated (7-13-2211 through 7-13-2215, MCA)
4. Election on Question of Creating a District (7-13-2211 through 7-13-2215, MCA)
 - * Election shall be held no more than 60 days from the date of the final hearing on the petition to form the water/sewer district

TABLE 5 Cont.

- * If at least 50 percent of the registered voters of the proposed district have voted and a majority favor formation of a district, the County Commissioners shall declare the territory duly organized as a county water and/or sewer district
- * County Clerk shall file a certificate with the Secretary of State stating that the proposition was adopted. Acknowledgement by the Secretary of State is required for the district to be legally incorporated.
- * Incorporation entitles the district to a number of general powers (7-13-2217 through 7-13-2211, MCA)

5. Organization of the District (7-13-2231 through 7-13-2273, MCA)

- * Within 120 days of district formation, voters within the district are required to elect a board of directors
- * The board of directors shall consist of:

Three to five members if there are no municipalities and ten or less qualified electors in the district; or

Three to five members plus one additional director for each municipality in the district (additional directors appointed by mayors of the municipalities)

County Commissioners may appoint an additional director if the district contains unincorporated territory

- * Term of the office of director varies from two to six years, depending on the make-up of the district
- * The election of directors shall occur every four years
- * Directors receive monthly compensation

6. Duties of the Board of Directors

- * Board holds legislative session open to the public and act only by ordinance and resolution
- * Board appoints administrative personnel

TABLE 5 Cont.

- * Board establishes charges for services provided by the district to pay operating expenses, interest on any bonded debt, and principal on any outstanding debts
 - * Board causes taxes to be levied on property for the payment of bonded debt. This procedure is subject to the requirements for public notification and allows residents of the district an opportunity to protest the tax.
7. Procedures to Incur Bonded Indebtedness (7-13-2321 through 7-13-2330, MCA)
- * If the board of directors deems it necessary for the district to incur bonded indebtedness, it must pass a resolution that declares that fact and indicates the purpose, the land benefitted by the indebtedness, the amount of debt, and the maximum term
 - * An election on the proposition must be held
 - * At least 60 percent of the votes cast at the election must approve the bond proposition. The board of directors may by resolution provide for the sale and disposition of bonds at times or in a manner deemed to be in the public interest
 - * Bonds issued by water and/or sewer districts are tax-exempt in Montana
8. Other
- * Lands may be added or excluded from the district, subject to the provisions of Montana statutes (7-13-2341 through 7-13-2348, MCA)
 - * Two or more sewer/water districts may consolidate at any time, subject to provisions outlined in Montana statutes (7-13-2342, MCA)
-

c. Financing Options for Water and/or Sewer Districts

Primary financing of costs incurred for the construction, operation, and maintenance of systems within the district is the responsibility of residents within the district. The board of directors of the district may borrow money or issue bonds to finance initial construction of water or sewer treatment and distribution systems. The major source of repayment of this debt is from the establishment of user fees by the district. If this revenue is insufficient, the County Commissioners are empowered to levy taxes on properties within the district. The additional assessment may be based on the relationship that each property's area or taxable valuation bears to the total district's area or taxable valuation.

Federal and state assistance may also be available to county water and/or sewer districts to underwrite portions of costs incurred through construction of facilities. Community Development Block Grants, Farmers Home Administration Water and Waste Disposal Loans and Grants, and other programs may be available to districts complying with application and eligibility requirements.

d. Advantage and Disadvantages of Water and/or Sewer Districts

i) *Advantages*

The major advantage of water and sewer districts is that problems regarding political boundaries and jurisdictional responsibilities may be avoided. These districts may consist of several combinations of political subdivisions and are governed by residents within the district. Under proper management, the governing body of the district can function expeditiously in the best interest of the district. The district may be used to fulfill a specific need for residents of a large geographic area and economies of scale may be achieved which may reduce costs somewhat for residents of the district.

ii) *Disadvantages*

One of the primary disadvantages of water and sewer districts is that they may not be responsive to or consistent with the comprehensive planning efforts of local governments. The provision of one urban service by a district may be counterproductive to community goals and the ultimate plans for numerous community services. Difficulties may be encountered in extending municipal services into areas already served by a similar district. As a result, major adjustments to the system may be necessary, and costs to other city residents may be increased.

5. Taxation for Funding Water and Sewer Systems

a. General

Financial support for community water and sewer systems is frequently obtained through taxes based on the assessed value of land and improvements and personal property. Some communities have tended to utilize this source of revenue since it has commonly been used to support all local government functions. Revenue to operate water and sewer facilities in the community may be budgeted from the general fund or from a specified levy that is retained in separate accounts and used exclusively for the systems. In recent years, the use of property taxes as the primary source of revenue for the operation of public utilities has declined. Local governments have recognized the need for a broad mix of revenue sources to develop a structure responsive to community growth and local, state and national economic trends. Moreover, the user fee (as opposed to general taxation) has become the primary revenue source for water and sewer systems.

b. Montana Taxation for Water and Sewer Purposes

i) *County Taxation*

Montana counties have the power to levy and collect annual taxes on all taxable property within their jurisdiction for the purpose of defraying costs of county services, facilities, or capital projects. Counties must comply with the current I-105 tax "freeze". Also, Montana statutes limit the size of the annual mill levy to 27 mills for Fourth through Seventh Class Counties and to 25 mills for First through Third Class Counties. For the purposes of financing water and sewer projects, additional county revenues may be obtained from the following levies:

a) Capital Improvement Fund Levy

The fund may be derived from the multiple levies authorized by law; however, no more than ten percent of the money derived from any one levy may be appropriated to this fund. Money in the fund must be expended within ten years for the replacement and acquisition of property, plant or equipment costing more than \$5,000 with a life expectancy of more than five years. A capital improvement program must be formally adopted by the county. (This fund is not a separate levy. It is an earmarking of part of the separate levies.)

b) Rural Improvement District Revolving Fund Levy

The Board of County Commissioners may levy a tax on all taxable property in the county to secure prompt payment of Rural Improvement District

bonds or warrants. The tax may be levied to generate and maintain a fund which equals five percent of the principal amount of outstanding RID bonds or warrants.

c) Water and/or Sewer District Fund Levy

The Board of County Commissioners has the authority to levy and collect taxes on all taxable property within a legally established water and/or sewer district. The levy is intended to provide revenue to repay bond obligations and provide for reserve funds for operation and maintenance of systems within the district.

ii) *Municipal Taxation*

Municipal governments in Montana have the power to levy and collect taxes for general and special purposes on all taxable property within cities or towns. However, this taxing ability is limited by the current I-105 tax freeze. Cities and towns have the authority to utilize an all-purpose mill levy or a general fund levy to generate revenue to provide community services. Montana statutes limit all-purpose levies to 65 mills.

In addition, local governing bodies may levy taxes for special purposes to supplement the all-purpose mill levy. Maximum levels of assessment for individual special purpose levies are established in State statutes. Prior to the imposition of any special tax, local governments must pass a resolution outlining their intention to exceed the maximum mill levy and submit the question to qualified voters for approval. Also, the municipality must comply with the statutory provisions to override the I-105 tax "freeze". A municipal government using an all-purpose mill levy must appropriate portions of the levy to its various departments through annual budgeting procedures.

In addition to the all-purpose mill levies used by municipal governments, revenues for water and sewer projects may be obtained from the following taxing procedures:

a) Capital Improvement Fund

A municipality utilizing an all-purpose levy may place up to five percent of the levy in a separate fund earmarked for the replacement and acquisition of property, plant or equipment costing in excess of \$5,000 with a life expectancy of more than five years. This option is available to municipalities that have formally adopted a capital improvements plan. (This fund is not a separate levy. It is an earmarking of part of the all purpose mill levy.)

b) Special Improvement District Revolving Fund Levy

The governing body may levy a tax on all taxable property in the municipality to secure the prompt payment of Special Improvement District bonds or warrants. The tax may be levied to generate and maintain a fund which equals five percent of the principal amount of outstanding SID bonds or warrants.

c. Advantages and Disadvantages of Local Taxation

i) *Advantages*

Financial support of community water and sewer services through property taxation allows the entire community to pay for the overall benefits afforded by the system, such as the avoidance of health and pollution hazards. This form of taxation also provides a means of obtaining financial contributions from the owners of undeveloped property for the benefit of having community water and/or sewer service available to the property. At the time the undeveloped property is improved, the increase in property tax will offset the increased usage of the services.

Administration of a system utilizing property taxes as the primary source of operating revenue for community services is simple, requiring no measurement of water or wastewater quantities to set user fees. The additional accounting and billing procedures required by such a tax based system are minimal. In addition, the tax system offers some benefits to individual property owners in that charges in the form of property taxes are tax-deductible, whereas service fees are not.

ii) *Disadvantages*

One of the primary disadvantages associated with the use of property taxes as a means of financing community services is the often unfavorable response by citizens to a tax increase. Since voter approval of tax measures is required, additional revenue to offset operation and maintenance costs of community water and sewer systems may be difficult to obtain. This system may also place a disproportionately large burden for community services on agricultural operations, commercial or industrial concerns that own large parcels of property. Problems may also be encountered in developing areas adjacent to the community, since a few landowners may be required to pay for large portions of the improvement costs. (However, this should be largely offset by future profits for these landowners when the areas are fully developed.) In addition, property taxes do not respond to inflation unless reassessment of taxable property occurs regularly to keep pace with increases in property values. Finally, the I-105 tax "freeze" has severely limited the ability of local governments to finance new improvements to water and sewer systems.

d. Impact of I-105 on Use of Local Taxation as a Water/Sewer Financing Tool

In 1986, Initiative 105 (I-105) [codified as sections 15-10-401 through 15-10-412, MCA] "froze" property taxes of all local taxing jurisdictions at 1986 levels. Since 1986, the Montana Legislature has made minor statutory adjustments relating to how the "freeze" is to be applied. There is a statutory exemption for emergency situations.

What does I-105 mean in terms of financing new water and sewer improvements? It means that unless the proposed new project will solve an emergency situation, property taxes can not normally be increased to finance a project. However, please note that the use of user fees, bonds, SID's and RID's are not subject to I-105. Local officials should discuss the legal aspects of I-105 with their legal counsel before attempting to use additional property taxation as a financing source for a water or sewer project.

REFERENCES FOR PART IV

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Appendix A: Glossary of Basic Financing Terms

Ad Valorem Tax: A tax based on value, such as the assessed value of real (land and improvements) and personal property.

Advanced Refunding Bonds: Bonds issued to refund an outstanding bond issue prior to the date on which the outstanding bonds become due or callable. Proceeds of the advance refunding bonds are deposited in escrow with a fiduciary, invested in U.S. Treasury Bonds or other authorized securities, and used to redeem the underlying bonds at maturity or call date and to pay interest on the bonds being refunded or the advance refunding bonds. Since the investments in which the proceeds of the advance refunding issue are invested will frequently earn a higher rate of interest than that paid on the outstanding bond issue and the advance refunding issue, the issuing agency may realize a net interest gain from the refunding operation.

Amortization: A straight-line reduction of debt by means of periodic payments sufficient to meet current interest and liquidate the debt at maturity.

Arbitrage: The practice of investing bond proceeds at a yield greater than the coupon rate being paid on the bonds. This "profit" is strictly limited by the Internal Revenue Service.

Authorization: Permission to issue the bonds. In addition to the Constitution, Statute or Charter enabling language, an election is often also required.

Bid (for Bonds): A statement of what a bank or syndicate of bank will pay for an entire bond issue, implying an offer to purchase the bonds. The lowest bid, i.e., the bid with lowest net or true interest cost, is the winning bid.

Bond: A certificate representing a promise to pay a specified sum of money, called the face value or principal amount, at a specified date or dates in the future, called the maturity date(s), together with periodic interest at a specified rate. The difference between a note and a bond is that a bond runs for a longer period of time and is usually a permanent financing tool while a note is typically an interim and short-term device.

Bond Anticipation Note (BAN): Short-term interest bearing notes issued by a government unit in anticipation of bonds to be issued at a later date. The notes are retired from proceeds of the bond issue to which they are related.

Bond Buyer: A daily trade paper of the municipal bond market. It also publishes "The Weekly Bond Buyer", which is devoted to capital market news and provides a summary of the week's municipal news.

Bond Counsel: Legal firm hired to advise the Issuer regarding the legal and tax aspects of the sale.

Bond Ordinance or Resolution: A legal order approved by the appropriate body of a government unit authorizing a bond issue. The rights of the bondholders and the obligations of the issuer are carefully detailed in this formal document. State laws and municipal charters prescribe whether a bond issue may be authorized by resolution, or must be made by ordinance. The latter is a more formal act of the governing body.

Bond Issue: Bonds sold.

Bond Payable: The face value of bonds issued and unpaid.

Budget (Operation): A plan of financial operation embodying an estimate of proposed expenditures for a given period and the proposed means of financing them. Used without any modifier, the term usually indicates a financial plan for a single fiscal year. The term "budget" is used in two senses in practice. Sometimes it designates the financial plan presented to the appropriate body for adoption, and sometimes it means the total revenues and expenditures finally approved by that body. It is usually necessary to specify whether the budget under consideration is preliminary and tentative or whether it has been approved by the governing body.

Call Date: The date on which a bond may be redeemed before maturity at the option of the Issuer.

Call Feature (Redemption Feature): Enables the Issuer to pay off ("redeem") a bond prior to its maturity date. The "call date" is the earliest date the bond may be redeemed ("called"). Usually a premium is paid for the earliest call dates.

Callable Bond: A type of bond which permits the Issuer to pay the obligation before the stated maturity date by giving notice of redemption in a manner specified in the bond contract. (Synonym: Optional Bond)

Call Price: The price at which callable bonds will be redeemed if called.

Capital Budget: A plan of proposed capital (infrastructure) expenditures and the means of financing them. The capital budget is usually adopted as part of the complete annual budget which includes both operations and capital outlays. The capital budgets should be based on a capital improvement plan (CIP).

Capital Improvement Program or Plan (CIP): A plan for capital expenditures to be incurred each year over a fixed period, setting forth each capital project, identifying the expected beginning and ending date for each project, the amount to be expended in each year, and the method of financing those expenditures. A CIP is a financial management tool. A CIP typically includes proposed improvements to a community's water system, sewer system, streets, and other facilities.

Capital Outlays: Expenditures for the acquisition of capital assets.

Capital Projects: Projects which purchase or construct capital assets. Typically a capital project encompasses a purchase of land and/or the construction of a building or facility (infrastructure).

Capital Improvements Fund: A fund created to account for all resources used for the acquisition of designated fixed assets by a governmental unit except those financed by special assessment and enterprise funds.

Competitive Bidding (also called Public Bidding): Sale of a bond issue by public advertisement in which any bidder may submit an offer to purchase the bonds and the bonds are sold to the bid with lowest interest cost.

Covenant: A binding agreement in the bond contract. Most are found in revenue bonds. For example, they can stipulate that the rates charged for use of the facilities are sufficient to maintain coverage of maximum annual debt service at a given level.

Coverage: This term is usually connected with revenue and corporate bonds. It is usually the ratio of net revenue available for debt service to the average annual debt service requirements for an issue of revenue bonds. This ratio indicates the margin of safety for payment of debt service, reflecting the number of times by which earnings for a period of time exceed debt service payable in such periods; e.g., 1.20, referred to a "one-twenty".

Current Yield: A relation stated as a percentage of the annual interest to the actual market price of the bond; the same procedure is used as in computing a stock yield.

Debt: An obligation resulting from the borrowing of money or from the purchase of goods and services. Debts of governmental units include bonds, time warrants, notes, floating debt, and loans.

Bonds: An interest-bearing promise to pay with a specific maturity.

Notes: In general, an unconditional written promise signed by the maker

to pay a certain sum of money on demand or at a fixed or determinable time either to the bearer or to the order of a person therein.

Time Warrant: A negotiable obligation of a governmental unit having a term shorter than bonds and frequently tendered to individuals and firms in exchange for contractual services, capital acquisitions, or equipment purchases.

Floating Debt: Liabilities other than bonded debt and time warrants which are payable on demand or at an early date. Examples are accounts payable, notes and bank loans.

Loans: An interest bearing promise to pay for a specific term of time.

Debt Limit: The maximum amount of debt which a governmental unit may incur under constitutional, statutory, or charter authorizations. The limitation is usually a percentage of assessed valuation and may be fixed upon either gross or net debt. If the latter is the case, the legal provision will usually specify what deductions from gross debt are allowed in order to determine net debt.

Default: Failure to pay principal or interest promptly when due. If caused by a minor omission which is remedied promptly, it is known as a "Technical Default".

Depreciation: 1) Expiration of the service life of capital assets (infrastructure) attributable to wear and tear, deterioration, action of the physical elements, inadequacy or obsolescence; and 2) that portion of the cost of a capital asset which is charged as an expense during a particular period. Water, sewer and other facilities may be depreciated in order to reserve funds for replacing these facilities.

Discount: The difference between the cost price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount. Note that the price does not include accrued interest at the date of acquisition or sale.

Encumbrances: Obligations in the form of purchase orders, contracts or salary commitments which are chargeable to an appropriation and for which a part of the appropriation is reserved. They cease to be encumbrances when paid or when an actual liability is established.

Face Value: The par value of a bond that appears on the face. This is the amount that the Issuer promises to pay at maturity, and also the amount on which interest is computed.

Financial Consultant or Advisor: Consulting firm or individual hired to advise the Issuer regarding the financial and market aspects of the sale.

Fiscal Agent: An agent (usually an incorporated bank or trust company) designated by a government to act for it in any of several capacities in the sale, administration and payment of bonds and coupons.

Fiscal Year: A twelve-month period of time to which the annual budget applies and at the end of which a governmental unit determines its financial position and the results of its operations. For example, the State of Montana's fiscal year starts July 1.

Full Faith and Credit: A pledge of the general taxing power for the payment of debt obligation. Bonds carrying such pledges are usually referred to as general obligation bonds or full faith and credit bonds.

General Obligation Bond: A bond for whose payment the full faith and credit of the issuer is usually pledged. Most commonly, general obligation bonds are payable from ad valorem property taxes.

Grant: A contribution of assets (usually cash) by one governmental unit or other organization to another. Typically, these contributions are made to local governments from the state and federal governments. Grants are usually made for specified purposes.

Industrial Development Revenue Bonds (IDB's, IDRB's, IRB's): Bonds issued by governmental units, the proceeds of which are used to construct plant facilities for private industrial concerns. Lease payments made by the industrial concern to the governmental unit are used to service the bonds. Such bonds may be in the form of general obligation bonds, revenue bonds, or a combination thereof.

Interest: Compensation paid or to be paid for the use of money, including amounts payable at periodic intervals or as discount at the time a loan is made.

Interest Rate: The interest payable, expressed as a percentage of the principal available for use during a specified period of time.

Interim Financing (Borrowing): 1) Short-term loans to be repaid from general revenues during the course of a fiscal year. 2) Short-term loans in anticipation of tax collections or bond issuances. (See Bond Anticipation Notes)

Investor (Bondholder): Ultimate buyer of any number of bonds from an issue who intends to hold the bonds for investment purposes.

Issuer: A municipal unit which borrows money through the sale of bonds, notes, or other evidence of indebtedness.

Lease or Lease-Purchase Revenue Bonds: Revenue bonds paid from lease payments made on projects financed by bonds.

Legal Opinion: The opinion of a specialized bond attorney as to the legality of a municipal bond issue. A preliminary legal opinion is made in advance of the original sale of the bonds; the final opinion, after the bonds have been sold and issued.

Levy: 1) To impose taxes, special assessments, or service charges for the support of governmental activities. 2) The total amount of taxes, special assessments, or services charges imposed by a governmental unit. A "mill levy" is a method of taxation.

Long-Term Debt: Debt with a maturity of more than one year after date of issuance.

Market Price: The price of an issued bond varies continuously as new bond issues come to market and previously issued bonds are retraded. Thus, the market price that an Investor will pay for a ten-percent, ten-year bond today may be different tomorrow. Therefore, the total market value of a portfolio changes daily.

Marketability: A measure of the ease with which a security can be sold in the secondary market.

Maturity: The date upon which the principal or stated value of a bond becomes due and payable.

Maturity Schedule: A listing of the total principal amount of bonds maturing in each year.

Municipal: In its broadest sense, an adjective which denotes the state and all subordinate units of government. In a more restricted sense, an adjective which denotes an incorporated city or town as opposed to other units of local government.

Negotiated Sale: The private arrangement between two or more parties to purchase the securities of an issuer without competitive public bidding.

Notice of Sale: Legal notice announcing the terms and conditions of the bond sale. Its contents and timing for publication are prescribed by Statute. Official Statements must be available for distribution on the first day ("first publication date") the notice of sale is published.

Official Statement (OS, also called Prospectus): The legal disclosure document prepared by a municipal bond issuer or its chosen representative, which sets forth all material facts necessary to fully describe the financial condition of the issuer and clarify the offering, as prescribed by law.

Par Value: The Value of a security as expressed on its face without consideration to any premium or discount; it is the amount that must be paid at maturity. It also signifies the dollar value on which bond interest is figured. Although bonds are usually issued in denominations of \$5,000, a quotation of 100 means "at par". Bonds quoted at 98 are selling at a discount; that is, they cost \$980 for a \$1,000 bond. Bonds quoted at 102 are selling at a premium; that is, \$1,020 for a \$1,000 bond.

Pay-As-You-Go Basis: A term used to describe the financial policy of a governmental unit which finances all of its capital outlays from current revenues rather than by borrowing. A governmental unit which pays for some improvements from current revenues and others by borrowing is said to be on a partial or modified pay-as-you-go basis.

Paying Agent: The agency, practically always a commercial bank, where the maturing interest coupons and principal of a bond issue will be paid. Municipal bonds usually are payable also at the office of a public treasurer.

Premium: The excess of the price at which a bond is acquired or sold over its face value or maturity value. Note that the price does not include accrued interest at the date of acquisition or sale. Also, the premium is the amount payable to the holder of a callable bond by the issuer, if and when the bond is called and assuming there is provision for a call premium.

Principal: The face or par value of a bond, exclusive of accrued interest.

Prospectus: A detailed statement issued by a company or municipality prior to the sale of new or additional securities, giving a full description of facts and information as required by the Securities and Exchange Commission or other authority.

Public Bidding: A method of issuing debt in which the issue is advertised in a financial journal and any investor is welcome to submit an offer to purchase.

Qualified Legal Opinion: Conditional affirmation of the legality of bonds, before or after they are sold. An Unqualified Legal Opinion, on the other hand, is an unconditional affirmation of the legality of the bonds.

Rating: The designation used by investors' services to give relative indications of quality. Moody's ratings range from the highest, Aaa, down to C, while Standard and Poor's ratings range from the highest, AAA, down to D.

Refinancing (Refunding): Retiring existing securities by the sale of new issues. The objective may be to save interest costs or to extend the maturity of the loan.

Refunding Bond: A bond issued to retire a bond already outstanding. Refunding bonds may be sold for cash and outstanding bonds redeemed in cash, or the refunding bonds may be exchanged with holders of outstanding bonds.

Registered Bond: A bond whose owner is registered with the issuing governmental unit and which cannot be sold or exchanged without a change of registration. When fully registered, there are no coupons attached and the interest is paid to the owner by check by the paying agent. Registered bonds may be registered as to principal and interest or as to principal only.

Reserve: An account used to indicate that a portion of fund equity is legally restricted for a specific purpose or not available for appropriation and subsequent spending.

Revenue Bonds: Bonds whose principal and interest are payable exclusively from earnings of a public enterprise, such as bridges, toll roads, or utility systems. Such bonds have no claim on the borrower's taxable resources unless otherwise specified in the bond indenture. In addition to a pledge of revenues, such bonds sometimes contain a mortgage on the enterprise's property, and are then known as Mortgage Revenue Bonds.

Serial Bonds: Bonds the principal of which is repaid in periodic installments over the life of the issue.

Serial Annuity Bonds: Serial bonds in which the annual installments of bond principal are so arranged that the combined payments for principal and interest are approximately the same each year.

Deferred Serial Bonds: Serial bonds in which the first principal installment does not fall due for two or more years from the date of issue.

Short-Term Debt: Debt with a maturity of one year or less after the date of issuance. Short-term debt usually includes floating debt, bond anticipation notes, tax anticipation notes, and interim warrants.

Sinking Fund: A fund of earning assets and cash to which additions are made periodically so that future contributions plus interest earned will accumulate to the par value of the bonds at maturity and can thus be used to redeem them. Difficulties of administration have made this practice rare today, but the term is sometimes used to cover any retirement of principal other than by serial maturities. Thus, a call of a part of a bond issue in order to retire debt may be called "for sinking-fund purposes".

Special Assessment: A compulsory levy made by a local government against certain properties to defray part or all of the cost of a specific improvement or service which is presumed to be of general benefit to the public and of special benefit to such properties. The term should not be used without a modifier (e.g., "special assessments for sewer construction" or "special assessments for street sprinkling") unless the intention is to have it cover both improvements and services or unless the particular use is apparent from the context.

Tax-Exempt Bond: Bonds exempt from federal income, state income, or state or local personal property taxes. "Municipals" are exempt from federal income taxation at present and may or may not be exempt from state income or personal property taxation in the state where originally issued or held. Most states do not tax "municipals" issued by their own state or local jurisdictions.

Tax-Increment Revenue Bond: Also called Tax Allocation Bond or Urban Renewal Bond, it is a form of revenue bond paid from monies derived from "tax increment financing" (TIF), a special application of taxes levied in urban renewal districts on the growth in taxable value. May be used to pay for water or sewer facilities in TIF districts.

Taxes: Compulsory charges levied by a governmental unit for the purpose of financing services performed for the common benefit. The term does not include specific charges made against particular persons or property for current or permanent benefits such as special assessments. Neither does the term include charges for services rendered only to those paying such charges as, for example, sewer user fees.

Term Bonds: Bonds the entire principal of which matures on one date. Also called Sinking Fund Bonds.

Underwriter: The investment house or houses that purchase a bond offering from the issuing government. A joint venture account of a number of underwriters is called the Underwriting Syndicate or Syndicate.

User Fee: A charge to a user of a governmental service. The charge is based on the specific amount of the service that the individual uses. Water and sewer services are often paid for by assessing user fees on the users (customers).

Warrant: An order drawn by the legislative body or an officer of a governmental unit upon its treasurer directing the latter to pay a specified amount to the person named or to the bearer.

Yield: The rate earned on an investment based on the price paid for the investment, the interest earned during the period held and the selling price or redemption value of the investment.

SOURCE: Excerpted from Capital Planning and Debt Issuance: An Informational Manual for Oregon Municipalities, Municipal Bond Division, Oregon State Treasury, Salem, Oregon, 1982.

Appendix B: Water and Wastewater Facility Information

Appendix B contains information of the size, type and treatment for most water and wastewater plants in Montana. Also included is the name of a contact person (usually the operator). The information is provided so that officials of cities or towns with similar types of plants and treatment can contact one another for problem solving and cost comparisons.

Many changes in type of treatment have been made recently. Also, a person listed as a contact person may now be employed elsewhere. If your city or town does not have the most recent upgrade to your system, or if there is a typographical error, please contact Doris Roberts, Northern Montana College, Havre, MT. 59501 to report the corrections that need to be made.

The following is a list of abbreviations used in the facility table information that starts on the next page.

Wastewater Plant Abbreviations

WW	Wastewater
MGD	Million Gallons per Day (design)
FL	Facultative Lagoon
AL	Aerated Lagoon
ND-FL	Non-discharge Facultative Lagoon
ND-AL	Non-discharge Aerated Lagoon

Water Plant Abbreviations

G	Ground
C	Combined
S	Surface
AM	Ammonia
SF	Softening
PC	Pre-chlorination
CO	Coagulation
SE	Sedimentation
FI	Filtration
TO	Taste & Odor
FM	Iron & Manganese
DI	Disinfection
FL	Fluoridation
XX	Other

TABLE B-1 Water and Wastewater Facility Information

B-2

FACILITY	WW PLANT TYPE	SIZE MGD	WATER SOURCE	SOURCE NAME	WATER TREATMENT	CONTACT PERSON
ABSAROKEE	FL	.40	G	Well		Jim Tryon
ALBERTON	AL	.047	G	Infiltration Gallery	DI	Howard Hogan
AMSTERDAM	ND-FL	.076				
ANACONDA	AL	3.0	C	Fifer Gulch Lake Warm Springs Creek Slver Lake Wells	AM DI	Harvey Ravudal, Kirt Wyant
ASHLAND	FL	.063	G	Wells	DI	John Wilbur
AUGUSTA	ND-FL	.05				Kurt Geise
BAINVILLE	ND-FL	.20	G	Wells		Clarence Romo
BAKER	FL	.30				Donald Hinman
BASIN	ND-AL	.045	G	Well		David Ramey
BEAR CREEK			G	Spring	DI	Orval Boyer
BELFRY	ND-FL	.03	G	Well		
BELGRADE	ND-FL		G	Wells		
BELLE CREEK	FL	.07			DI SF	Henry Hathaway Steven Patten
BELT	FL	.11	G	Well	DI	Danial Mitchell
BIG SANDY	AL	.09	G	Wells Infiltration		John Field

FACILITY	WW PLANT TYPE	SIZE MGD	WATER SOURCE	SOURCE NAME	WATER TREATMENT	CONTACT PERSON
BIG TIMBER	AL	.523	C	Boulder River Well	DI XX	Ronald Thomas
BIGFORK	TF	.50	S	Infiltration Gallery	DI	Eric Johnson
BOULDER	FL	.20	G	Wells		Gregory Gill
BOX ELDER	ND-FL					
BRADY	FL	.03	S	Bynum Res. Kropp's Lakes	SE DI	Daniel Rouns
BRIDGER	FL	.13	G	Wells	DI	Tim Goldsberry
BROADUS	FL	.10	G	Wells	DI	Clinton Gress
BROADVIEW	FL		G	Wells	DI	Arthur Baird
BROCKTON	FL	.03	G	Wells		
BROWNING	FL		G	Well PWS	FI DI	Peter Vandenberg
BUSBY	ND-FL					
CARTER	ND-FL	.01	G	Well	DI	Larry Emmett
CASCADE	FL	.08	G	Wells Springs	DI	
CHARLO			G	Drilled Well		Jim Hendricksen
CHESTER	FL	.09	S	Intake Tiber RES	DI	Jim Coffman

FACILITY	WW PLANT TYPE	SIZE MGD	WATER SOURCE	SOURCE NAME	WATER TREATMENT	CONTACT PERSON
CHINOOK	OD	.51	S	Milk River	PC CO SE FI TO AM DI	Marlene Doney
CHOTEAU	FL	.30	G	Springs Well	DI	Stanley Brown
CIRCLE	FL	.06	G	Well	DI	Donald Clarin
CLANCY			G	Well		
CLYDE PARK			G	Springs	DI	Nina Denzien
COLSTRIP	OD	.60	G	Well	DI	Larry Afrank
COLUMBIA FALLS	EAAS	.55	C	Wells Springs	DI	John Boyer
COLUMBUS	FL	.16	G	Infiltration	DI	Terry Johnson
CONRAD	AL	.65	S	Lake Francis Itch	CO SE FI DI	Stephen Rudd
COOKE CITY			G	Springs		Bill Sommers
CORAM			G	Well	DI	William Kavanagh
CORVALLIS	ND-AL	.05				
CUSTER	ND-FL	.06	G			Clifford Ottinger

FACILITY	WW PLANT TYPE	SIZE MGD	WATER SOURCE	SOURCE NAME	WATER TREATMENT	CONTACT PERSON
CULBERTSON	ND-FL	.05	S	Missouri River	SE DI	Andrew Finnicum
CUT BANK	FL	.42	C	Wells PWS Cut Bank Creek	CO SE FI DI	Gary Smith
DARBY	AL	.15	G	Well Field		Paul Honey
DEER LODGE	AL	2.4	C	Wells Tin Cup Joe Creek	DI	William Scott Joseph Dillon
DENTON	FL	.05	G	Springs	DI	Keith Wickens
DILLON	AL	1.1	C	Rattlesnake Creek Wells	AM SE PC DI	Robert Cottom
DIXON	ND-FL					Douglas Baty
DODSON	FL	.09	G	Well		Dale Dvorshak
DRUMMOND	FL	.075				David Durfee
DUTTON	FL	.05	G	Well		Jerry Blouin
EAST HELENA	AL	.64	C	Wells McClallen Creek	DI	Edward Murgel
EAST GLACIER			S			Stanley Nelson
EKALAKA	AL		G	Wells		Elston Loken
ENNIS	FL	.06	G	Well	FL DI	

FACILITY	WW PLANT TYPE	SIZE MGD	WATER SOURCE	SOURCE NAME	WATER TREATMENT	CONTACT PERSON
ESSEX			S	Essex Creek	DI	Kenneth Johnson
EUREKA	ND-AL	.18	G	Well Infiltration Gallery	PC	Caryl Wobig
FAIRFIELD	FL	.1	G	Well	DI	Robert Loss
FAIRVIEW	FL	.16	G	Wells		Kenneth Sharbono
FALLON	FL					Glen Meidinger
FLAXVILLE	ND-FL		G	Wells		Dale Fishell
FORSYTH	OD	.54	S	Yellowstone River	SE FI TO DI	Michael Hagel
FORT BENTON			S	Missouri River	CO SE FI TO DI	Clarence Steinbacher
FORT PECK			S	Fort Peck Lake	PC FI TO AM DI	John Boettcher
FRAZER	ND-FL		G	Well		
FROID	ND-FL	.04	G	Wells	DI	
FROMBERG	FL	.04	G	Well Infiltration	DI	Vern Adkins

FACILITY	WW PLANT TYPE	SIZE MGD	WATER SOURCE	SOURCE NAME	WATER TREATMENT	CONTACT PERSON
GALATA			G	Well		Gerald Smith
GARDINER	ND-AL	.23	G	Springs Yellowstone River Well	CO SE FI DI	John Wahoff Chris McIntosh
GERALDINE	FL	.05	G	Wells	PC DI	Donald Thomas
GEYSER	ND-FL		G	Aartesian Well		Bruce Evans
GILFORD	ND-FL	.022				Steve Preeshl
GLASGOW	AL	.7	C	Wells Missouri River	DI CO SE FI SF FM	Brent Magill
GLENDIVE	FL	1.3	S	Yellowstone River	PC CO SE FI SF TO FM DI	Gary Zuroff
GRASS RANGE	ND-FL		G	Wells		James Roane
HAMILTON	OD	2.0	G	Wells	DI	Richard Kittel
HARDIN	OD	.511	S	Bighorn River	CO SE FI FL DI	John Gilsdorf Larry Vandersloot

FACILITY	WW PLANT TYPE	SIZE MGD	WATER SOURCE	SOURCE NAME	WATER TREATMENT	CONTACT PERSON
HARLEM	AL	.11	S	Milk River	CO SE FI AM DI	Richard Mohar
HARLOWTON	FL	.30	G	Wells	DI	Harold Hagberg
HAVRE	CAS	1.8	C	Milk River Wells	PC SE DI CO FI TO	Kristine Kline Tim Miller
HAYS	ND-FL					
HERON			G	Well		Leonard Jensen
HIGHWOOD	EA	.026	G	Well		Sidney Walker
HINGHAM	ND-FL	.035	PS	Fresno Resvr.		Ron Groseclose
HINSDALE	EAAS	.03	G	Well	DI	Roy Jones
HOBSON	FL	.01				
HOT SPRINGS	AL	.24	C	Hot Springs Creek Wells		Daniel Oberlander
HUNTLEY			G	Well		Marvin Strand
HUNGARY HORSE			G	Well		Douglas Wagner
HYSHAM	AL	.1	S	Infiltration Gallery		Malcolm Maasch
INGOMAR			G	Spring	DI	David Hamilton

FACILITY	WW PLANT TYPE	SIZE MGD	WATER SOURCE	SOURCE NAME	WATER TREATMENT	CONTACT PERSON
INVERNESS	ND-FL	.02	G	Well	DI	Bill Langel
JACKSON			G	Spring		
JEFFERSON CITY			G	Well	DI	Ron Hagerty
JOLIET	AL	.62	G	Wells		Roy Buechler
JOPLIN	ND-FL		PS			Robert Moog
JORDAN	ND-FL	1.0	G	Well	DI	Rocky Nelson
JUDITH GAP			G	Wells		Jack Miller
KEVIN	ND-AL	.033	G	Springs Wells		James Jeffres
LAKESIDE			G	Well	AE SE	Eugene Forsyth
LAMBERT	ND-FL		G	Wells		Kenneth Backes
LAUREL	RBC	.88	S	Yellowstone River	PC CO SE FI FL DI	Robert Mann
LAVINA	FL	.027				Elmer Hogan
LEWISTOWN	RBC	2.83	G	Big Springs		Wendell Wade
LIBBY	OD	.511	S	Flower Creek	SE DI	Albert Eldridge
LIMA			G	Well	DI	Jesse Koontz

FACILITY	WW PLANT TYPE	SIZE MGD	WATER SOURCE	SOURCE NAME	WATER TREATMENT	CONTACT PERSON
LINCOLN	ND-FL	.12				Robert Morris
LIVINGSTON	RBC	2.0	G	Yellowstone River Wells	DI	Steve Briggs Clint Tinsley
LODGE GRASS	FL	.08	G	Wells		Clifford Singer
LOLO	EAAS	.25	G	Wells		David Haverfield
LOMA			S	Marias River	CO SE FI DI	James Cornell
MALTA	AL	.37	G	Wells		Stanley Wombold
MANHATTAN	FL	.03	G	Springs Well	PC DI	Stuart Cooper
MARTINSDALE			G	Springs	DI	David Hereim
MEDICINE LAKE	FL	.03	G	Well	DI	Clarence Bakken
MELSTONE	ND-FL	.05	S	Musselshel River	DI CO SE FI	
MILES CITY	OD	2.0	C	Yellowstone River Wells	CO SE FI SF TO AM FL DI	Mark Richardson
MILLTOWN			G	Wells		Arthur Bush

FACILITY	WW PLANT TYPE	SIZE MGD	WATER SOURCE	SOURCE NAME	WATER TREATMENT	CONTACT PERSON
MOORE	ND-FL	.018	G	Well Artesian Well	DI	Elbert Larsen
MUSSELSHELL			G	Wells		Lynn Rettig
NASHUA	ND-FL	.12	G	Wells	DI	David Rexhausen
NEIHART			S	O'Brien Creek	DI	Truman Kaldor
NOXON			G	Wells	DI	Gary Nelsen
OILMONT			G	Wells		
OPHEIM	ND-FL	.12	G	Wells		James Bailey
OUTLOOK	FL		G	Wells		Tim Wirtz
PABLO	ND-FL		G	Wells		Henry Johnson
PARADISE			G	Well	DI	Gene Hawley
PARK CITY	ND-FL	.05				
PHILLIPSBURG	FL	.20	S	Fred Burr Lakes South Boulder Frost Creek	DI	Richard Hoehne
PINESDALE			C	Sheafman Creek Spring Wells		Paul Gold
PLAINS	ND-AL	.16	G	Spring, Wells	DI	David Rosenow
PLENTYWOOD	FL	.42	G	Wells		Laverne Beckers
PLEVNA	ND-FL	.02				Norman Panasuk
POLSON	AL	.60		Hell Roaring Lake, Wells		John Campbell

FACILITY	WW PLANT TYPE	SIZE MGD	WATER SOURCE	SOURCE NAME	WATER TREATMENT	CONTACT PERSON
POPLAR	OD	.6	G	Wells	DI	Chris Brunkhorst
POWER	ND-FL	.02	S	Muddy Creek	CO SE FI DI	Gene Walker
PRAY			G	Well Spring	DI	Greg Saks
RAMSEY	ND-FL	.02	G	Wells		Hank Kruzich
RAPELJE			G	Spring	DI	Mark Doely
RED LODGE	FL		C	Rock Creek Well	PC DI	Robert Kruse
REXFORD	ND-AL	.16	G	Well		Richard Payton
RICHEY	ND-FL	.11	G	Wells	DI	James Sullivan
ROBERTS	ND-FL	.03	G	Wells	DI	
ROCKER	AL	.035				Cliff Ameson
RONAN	AL	.30	C	Crow Creek Well	PC DI	Kevin Templer
ROSEBUD	ND-FL					
ROUNDUP	ND-FL	.35	G	Infiltration Well	FL DI	Garu Thomas
ROY	ND-FL		G	Well	DI	Edwin Hyem
RUDYARD	ND-FL	.15				Gerry Langel
RYEGATE	ND-FL	.05	G	Infiltration	DI	Ralph Phelps

FACILITY	WW PLANT TYPE	SIZE MGD	WATER SOURCE	SOURCE NAME	WATER TREATMENT	CONTACT PERSON
SACO	FL	.03	G	Springs Wells	DI	Todd Mandeville
SAND COULEE			G	Well	DI	George Kovack
SAVAGE	FL	.04				
SCOBAY	ND-FL	.42	G	Wells	FL DI	Douglas McCulloch
SEELEY LAKE			S	Seeley Lake	DI	Paul Torok
SHELBY	FL	.40	G	Wells		Richard Voorhies
SHERIDAN	FL	.07	C	Wells Indian Creek	DI	Gustav Wuelfing
SIDNEY	ND-FL	1.4	G	Wells		Lloyd Thompson
SILVER GATE			G	Spring		David Majors
SIMMS	ND-FL					Fred Holland
SOMERS			S	Flathead Lake	DI	Morey Grove
ST. IGNATIUS	AL	.08	G	Well		Jim Jensen
STOCKETT			G	Spring		Beverly Pepos
STANFORD	FL	.05	G		FM	Lee Wolfe
STEVENSVILLE	OD	.3	C	Swamp Creek Wells	DI	Bruce Park
SUN PRAIRIE VILLAGE	AL	.17	G	Well		Bobby Broadway
SUNBURST	FL	.51	G	Wells	DI	Leroy Meyer
SUN RIVER			G	Well	DI	Malvin Merja

FACILITY	WW PLANT TYPE	SIZE MGD	WATER SOURCE	SOURCE NAME	WATER TREATMENT	CONTACT PERSON
SUPERIOR	AL	.18	G	Springs Wells		Ben Poat
SWEETGRASS	FL	.012	PS	Coutts Aalberta		Clifford Brown
TERRY	FL	.15				Glen Meidinger
THOMPSON FALLS	AL	.085	C	Ashley Creek Well	DI	Andrew Marich
THREE FORKS	FL	.45	G	Wells	FL	Joseph Eva
TOWNSEND	FL	.16	G	Wells		William Herrington
TROY			C	O'Brian Creek Well	DI	Melvin Price
TURNER	ND-FL	.015				
TWIN BRIDGES	FL	.06	G	Wells		Sam Novich
TWO DOT			G	Well		
VALIER	FL	.04	G	Wells		Bill Arnst
VAUGHN	AL		G	Wells	DI	Bernice Morgan
VICTOR	ND-AL	.085				Donald Golder
VIGINIA CITY	ND-FL	.015	G	Springs		Robert Williams
WEST GLENDIVE	AL	.17				
WEST YELLOWSTONE			G	Wells		
WESTBY	ND-FL		G	Wells	TO	James Vest

FACILITY	WW PLANT TYPE	SIZE MGD	WATER SOURCE	SOURCE NAME	WATER TREATMENT	CONTACT PERSON
WHITE SULPHUR SPRINGS	FL		C	Willow Creek	FL DI	Ed Rasmussen
WILLOW CREEK	EAAS	.015				Don Kast
WHITEFISH	AL	1.25	S	Hell Roaring Creek Whitefish Lake	DI	Ronald Robertson
WHITEHALL	FL	.25	G	Wells		
WIBAUX	AL	.10	G	Wells		William Bold
WILLSALL			G	Wells	DI	Bernard Lennemann
WINIFRED	ND-FL	.01	G	Well	DI	Neil Rich
WINNETT	AL	.035	G	Well	DI	Charles Allen
WOLFPOINT	AL	.50	G	Wells		Charles Worley
WORDEN	ND-FL	.08	G	Drain Pipe	DI	Carl Dassinger
ZORTMAN			G	Wells		
WYOLA			G	Well Infiltration	DI	

Appendix C: Current User Fees for Montana Local Governments

The following report is an excerpt from the Study of the Financial Capabilities of Montana's Municipalities and Water and Sewer Districts to Support their Water and Wastewater Needs prepared by Robert Peccia & Associates, Helena, Montana, consultant for the Montana Department of Health and Environmental Sciences, Helena, Montana. The survey format was prepared by Robert Peccia & Associates, with the assistance of Jim Boyer and input and review by Scott Anderson of the Water Quality Bureau.

Many Montana communities have not been able to bring their water and wastewater systems into compliance with the requirements of the Safe Drinking Water Act and Clean Water Act. Explanations for this may vary between communities, but an overwhelming reason is simply their inability to finance the needed improvements. With the elimination of the EPA Construction Grants Program and the strict competition for other available grant monies, communities may be forced to fund their improvements with loans and bonds only. Loans and bonds are normally paid off by raising user fees.

The Montana Department of Health and Environmental Sciences (MDHES) is sympathetic to the plight of Montana communities. They realize that most communities want to upgrade and improve their water and wastewater systems, but may lack the technical and financial resources needed to do so. The MDHES Water Quality Bureau has given considerable thought as to how to better identify the water and wastewater needs of Montana communities and assess their financial capabilities.

Some of the conclusions made by Robert Peccia & Associates follows.

1. The response rate for the surveys was excellent - 91 percent for municipalities and 80 percent for districts, thus providing for good statistical analysis.
2. Survey results indicate that the average Montana municipal water fee is \$14.62 per month.
3. Survey results indicate that the average Montana district water fee is \$21.69 per month.
4. Survey results indicate that the average municipal sewer fee is \$9.25 per month.
5. Survey results indicate that the average district sewer fee is \$14.68 per month.
6. Statistics indicate that the average Montana household pays about 0.9 percent of its median annual income for municipal water service.
7. Statistics indicate that the average Montana household pays about 0.6 percent of its median annual income for municipal sewer service.
8. The total cost of statewide municipal wastewater system current, needed improvements identified by the survey was, \$126,231,707.

9. The total cost of statewide district water system current, needed improvements identified by the survey was \$3,445,400.
10. The total cost of statewide district sewer system current needed, improvements identified by the survey was \$22,757,375.

Local government officials should exercise great caution in using this data for comparing user fees for jurisdictions with similar populations. For example, just because another town has the same population as your town, it does not mean that the other town's fee can be automatically used as a bench mark for determining what is a reasonable fee for your town. The other town's water and/or sewer system may be in substantial disrepair and, in this case, their fee would be artificially low. When the other town fixes their system, their fee may rise dramatically.

When reviewing the user fee tables on the following pages, one must remember that rate structures are based on many factors (i.e., type of facility, recent upgrades, future upgrade needs, existing debt, community growth, past grant received, rancher's water needs, etc.). For example, the Tri-County Water District has the highest monthly water fee but they provide irrigation water, in addition to domestic water, to the area ranchers. Another example would be the Lakeside County Sewer District, which recently completed some major improvements to its wastewater facilities. User fee comparisons can only be made if all the factors involved in setting the user fees for a particular community are known. A high fee for a community may still be too low for their particular needs; a low fee in another community may be able to take care of their present and future needs (it may also indicate trouble).

The rate analysis, to a large extent, does not reflect projects now in planning or identified as a current or anticipated need. In the next five years, it is expected that some projects will have significantly higher fees, and that the average fee will rise correspondingly.

On the following pages you will find tables of municipal and district water and wastewater user fees. The monthly residential water and wastewater fees included within the tables are either (1) monthly flat rates or (2) monthly charges based on 10,000 gallons of water used plus other factors, e.g. base rate plus charge per additional volume used.

Municipal Water User Fees

In Table 1, monthly water fees are ranked from highest to lowest for Montana's municipalities. The mean water fee is \$14.62 and the standard deviation is \$6.99.

TABLE C-1

Community Rankings by Municipal Residential Monthly Water Fees					
Municipality	Water Fee	Municipality	Water Fee	Municipality	Water Fee
Shelby	39.11	Big Timber	16.25	Bearcreek	10.00
Winnett	37.00	Belgrade	16.25	Troy	10.00
Melstone	33.68	Billings	15.87	Westby	10.00
Sunburst	31.12	Harlem	15.70	Harlowton	9.75
Richey	28.08	Medicine Lake	15.50	Joliet	9.47
Dutton	27.45	Thompson Falls	15.10	Bridger	9.40
Helena	26.48	Wolf Point	15.08	Fromberg	9.30
Kevin	25.18	Hardin	15.02	Fairview	9.00
Libby	24.84	Lima	15.00	Plains	8.98
Bozeman	24.12	Whitefish	15.00	Dillon	8.97
Stevensville	23.00	Hysham	14.90	Eureka	8.78
Broadus	22.31	Sheridan	14.70	East Helena	8.57
Dodson	22.00	Columbia Falls	14.20	Jordan	8.50
Miles City	21.82	Laurel	13.63	Boulder	8.46
Saco	21.07	Grass Range	13.50	White Sulph	8.25
Scobey	21.00	Wibaux	13.40	Brockton	8.25
Glasgow	20.86	Choteau	12.82	Darby	8.00
Forsyth	20.57	Big Sandy	12.80	West Yellows	7.90
Lewistown	20.55	Ennis	12.60	Froid	7.86
Red Lodge	20.49	Cascade	12.58	Nashua	7.75
Circle	20.17	Hot Springs	12.40	Rexford	7.50
Neihart	20.00	Belt	12.40	Twin Bridges	7.00
Polson	19.66	Glendive	12.35	Columbus	6.16
Ronan	19.58	Baker	12.22	Winifred	6.00
Chester	19.00	Deer Lodge	12.03	Ryegate	5.60
Valier	18.72	Livingston	11.50	Whitehall	5.60
Geraldine	18.50	Plentywood	11.05	Moore	5.58
Three Forks	18.38	Fort Benton	11.00	Stanford	5.00
Ekalaka	18.30	St. Ignatius	11.00	Townsend	4.95
Poplar	17.93	Flaxville	11.00	Alberton	4.08
Chinook	17.83	Kalispell	10.80	Judith Gap	0.70
Browning	17.75	Sidney	10.76		
Havre	17.60	Great Falls	10.45		
Fairfield	17.40	Philipsburg	10.35		
Conrad	17.36	Manhattan	10.34		
Hamilton	17.22	Plevna	10.30		
Malta	16.91	Culbertson	10.16		
Roundup	16.30	Bainville	10.00		

District Water User Fees

Table 2 contains the community rankings by residential monthly water user fee in Montana Water Districts. The average district water rate was \$21.69 per month, and the median fee was \$16.00. The standard deviation is \$22.34.

TABLE C-2

Community Rankings by District Residential Monthly Water Fees			
District	Water Fee	District	Water Fee
Tri-County Water*	115.00	Vaughn/Cascade County	15.00
Tiber County	64.00	Brady Water	15.00
Oilmont County	55.00	Paradise County	14.00
Cut Bank N./Glacier City	34.00	Gardiner/Park County	11.00
Carter/Choteau County	31.00	Lorraine South County	10.00
Hungry Horse County	26.00	Sanders County	10.00
Fergus County Roy	25.00	Basin County	10.00
Gore Hill Water	25.00	Charlo Water	9.00
Bigfork County	24.00	Flathead County/Evergreen	8.00
Flathead County/Martin City	23.00	Lakeside Water	8.00
East Glacier County	20.00	Riverside Water	8.00
Billings Heights	20.00	Lake Shore Heights County	8.00
Custer County	17.00	Geyser County	5.00
Power/Teton County	17.00	Missoula County/Lolo	5.00
Seeley Lake	17.00	Cooke City/Cooke Pass/ Silver Gate	3.00

* The highest water fee, \$115.00 per month, in the Tri-County Water District is unique because it provides irrigation water, in addition to domestic water to the area ranchers.

Municipal Sewer User Fees

On the following page, Table 3 contains the monthly sewer user fees ranked from highest to lowest for Montana's municipalities. The mean sewer fee is \$9.25 and the standard deviation is \$7.06.

TABLE C-3

Community Rankings by Municipal Residential Monthly Sewer Fee

Municipality	Sewer Fee	Municipality	Sewer Fee
Chinook	36.25	Townsend	7.50
Harlem	29.80	Sidney	7.32
Whitefish	29.70	Glasgow	7.18
Columbia Falls	27.64	Dillon	7.02
Livingston	25.63	Whitehall	6.90
Plains	24.90	Fairview	6.75
Winnett	24.00	Belt	6.60
Conrad	23.08	Manhattan	6.60
Kalispell	20.40	Grass Range	6.50
Libby	19.26	Circle	6.48
Laurel	19.24	Kevin	6.27
Thompson Falls	19.20	Alberton	6.25
Red Lodge	19.02	Missoula	6.22
Hot Springs	18.50	Rexford	5.50
Big Sandy	14.00	Superior	5.50
Miles City	13.88	Twin Bridges	5.40
Shelby	13.64	Saco	5.26
Hamilton	13.63	Nashua	5.25
Billings	13.49	Medicine Lake	5.00
Forsyth	13.05	Hysham	5.00
Wolf Point	13.01	Winifred	5.00
Butte	12.40	Dodson	5.00
Ronan	12.06	Froid	5.00
West Yellowstone	12.00	Harlowton	5.00
Helena	11.97	Fort Benton	4.71
Great Falls	11.90	Big Timber	4.41
Hardin	11.89	Wibaux	4.17
Fromberg	11.20	Drummond	3.83
Chester	11.00	Boulder	3.75
Eureka	11.00	Darby	3.70
Havre	11.00	East Helena	3.58
St. Ignatius	11.00	Plentywood	3.55
Poplar	10.98	Fairfield	3.50
Deer Lodge	10.98	Philipsburg	3.09
Judith Gap	19.92	Melstone	3.03
Bearcreek	10.62	Sheridan	3.00
Three Forks	10.25	White Sulphur Springs	2.80
Baker	9.91	Columbus	2.76
Stevensville	9.85	Glendive	2.73
Lewistown	9.75	Anaconda	2.57
Bozeman	9.60	Terry	2.42
Ekalaka	9.50	Cascade	2.20
Belgrade	9.24	Broadus	2.15
Browning	9.20	Valier	1.87
Polson	8.96	Choteau	1.68
Stanford	8.80	Brockton	1.65
Culbertson	8.50	Geraldine	1.57
Malta	8.25	Scobey	1.30
Flaxville	8.25	Jordan	1.06
Westby	8.00	Roundup	1.00
Moore	8.00	Bainville	0.75
Joliet	8.00	Plevna	0.50
Ennis	7.55		

District Sewer User Fees

Table 4 contains the community rankings by residential monthly wastewater fee (highest to lowest) in Montana Sewer Districts. The average district wastewater fee was \$14.68 per month, and the median value was \$12.25. The standard deviation is \$22.34.

TABLE C-4

Community Rankings by Municipal Residential Monthly Sewer Fees			
District	Sewer Fee	District	Sewer Fee
Lakeside County	45.00	Riverside	11.40
Savage	35.00	Geyser County	10.00
Carter-Choteau County	30.50	Blaine County	10.00
Cut Bank N./Glacier County	26.75	Highwood	10.00
Bigfork County	24.17	Basin County	9.50
Simms County	24.00	Custer County	7.95
Fergus County	20.00	Missoula County/Lolo	7.40
Power-Teton County	20.00	Victor County	5.40
Fallon Prairie County	20.00	Sanders County	5.00
Lincoln/L&C County	19.50	Corvallis County	4.67
Reserve	15.96	Absarokee County 5 & 7	3.20
Gildford County	15.50	Charlo	2.50
Willow Creek	15.00	Augusta	2.00
East Glacier County	13.00	Brady	0.21
Vaughn Cascade	12.25		

Appendix D: Operator Salary Ranges

The tables on the following page contain operator salary ranges grouped according to the size of the city/town. All salary ranges in this section are for cities/towns that have full-time employees (they may only work part-time on the water/wastewater systems). The degree of complexity of the water/wastewater facilities vary greatly. A municipality operating wells and a lagoon usually does not need a full-time operator for their system; they have the operator also take care of other duties. Even with lagoons the complexity varies greatly. Is the lagoon system facultative or aerated? Does the operator perform process control and permit monitoring tests?

Two municipalities with the same population may not have the same number of employees, and one may have part-time operators while the other has full-time operators. This difference is usually caused by the type of water and/or wastewater facility each municipality has. For example, municipality A might have a facultative lagoon and wells while municipality B has an activated sludge plant and a water plant consisting of coagulation, flocculation, sedimentation, filtration, and disinfection.

The towns surveyed with the greatest number of full-time employees that work part-time on the water/wastewater facilities are towns with populations between 100 to 2500. Most of the municipalities surveyed with populations above 2500 have full-time water/wastewater operators.

Ninety cities/towns were contacted in the salary survey and seventy-eight responded.

The following salary range information can be helpful in budgeting and for planning improvement to your water and sewer system.

Table D-1

Yearly Operator Salary Ranges for Municipalities with Full-Time Employees

POPULATION RANGES	YEARLY SALARY RANGES
100 - 500	\$ 12,000 - \$ 16,668
501 - 1000	\$ 10,860 - \$ 20,568
1001 - 2000	\$ 8,320 - \$ 19,760
2001 - 5000	\$ 12,480 - \$ 21,996
5001 - 10000	\$ 13,021 - \$ 20,467

Table D-2

**Monthly/Hourly Operator Salary Ranges for Municipalities
with Part-Time City Employees**

POPULATION RANGES	SALARY RANGES
100 - 500	\$ 200 - \$ 600 per month
100 - 500	\$ 5.00 - \$ 10.00 per hour

Appendix E: Preventive Maintenance

Preventive maintenance is extremely important, not only for the proper treatment to take place at a water or wastewater plant but, also in lowering the cost of repairs. Preventive maintenance is less expensive than the cost of major repairs (or upgrades) that result from the lack of a preventive maintenance program.

The manufacturer's literature is the best source of information for the preventive maintenance that should take place at your plant. The following table contains general guidelines for wastewater preventive maintenance (a similar chart should also be constructed for a water Plant).

Table E-1 Wastewater Plant Maintenance

EQUIPMENT	SUGGESTED PROCEDURES	ACTIONS	FREQUENCY
A. Aeration Piping*	1. Inspect piping for leaks.	1a. Visually observe and listen for leaks at pipe and joint connections.	Daily
	2. Inspect diffuser header assemblies.	2a. Remove header assemblies from tank. Check diffuser and connections for damage and plugging	Twice/year
	3. Check aeration pipe valves and diffuser header assembly control valves for proper operation.	3a. Operate valves to full open and close position. Adjust valves to proper positions.	Monthly
	4. Check air flow meters, gauges and condensate traps.	4a. Check and calibrate meters and gauges as recommended by manufacturer. 4b. Drain condensate traps.	Daily
B. Air Compressors* (Centrifugal and positive placement)	1. Check air filters.	1a. Clean or replace filters as recommended by manufacturer.	Generally dictated by climate
	2. Check operation of Compressors and motors.	2a. Check for excessive vibrations, unusual noises, lubricant leakage, bearing overheating. 2b. Check oil levels, if so equipped, maintain proper levels.	Twice/shift
		2c. Check packing, mechanical seals -- adjust and maintain as recommended by manufacturer.	
		2d. Check compressor intake and discharge valves for proper position.	

Table E-1 Wastewater Preventive Maintenance

EQUIPMENT	SUGGESTED PROCEDURES	ACTIONS	FREQUENCY
C. Mechanical Aerators*	3. Check compressor air discharge back pressure.	3a. Record back pressure. Increasing pressure is indicative of diffuser plugging.	Daily
	4. Perform regular maintenance as recommended by manufacturer.		
	5. Alternate compressors in service.		Weekly
	1. Check units for proper operation.	1a. Check for excessive vibration, unusual noises, motor and gear box overheating.	Twice/shift
D. Aeration Tank*	2. Maintain units properly.	1b. Check for proper oil level in gear box and proper motor lubrication.	
		1c. Check condition of baffles -- if so equipped, and repair or replace as required.	
		2a. Follow manufacturer's instructions.	
	1. Inspect for proper operation.	1a. Mechanical equipment.	Twice/shift
		1b. Presence of foaming on surface.	
	2. Perform routine washdown.	1c. Boiling or uneven surface aeration pattern.	
		2a. Hose down inlet channels, tank walls -- especially at the water line, effluent baffles, weirs and channels, and other appurtenant equipment at water line.	Daily to weekly
	3. Check control gates and gate operators for proper operation.	3a. Operate gates and operators to full open and close position. Adjust gates to proper position to equalize flow distribution.	Twice/month to monthly
	4. Check froth spray system, if provided.	3b. Lubricate as recommended by manufacturer.	
		4a. Unplug spray nozzles as necessary and check for proper spray angle.	Twice/shift
	5. Inspect baffles and effluent weirs.	5a. Maintain baffles in good condition. Maintain effluent weirs at equal evaluation.	Monthly

Table E-1 Wastewater Plant Maintenance

EQUIPMENT	SUGGESTED PROCEDURES	ACTIONS	FREQUENCY
D. Pumps*	<ol style="list-style-type: none"> 1. Check operation of the pumps and motors. 2. Alternate pumps in service. 3. Maintain pumping units. 4. Fully open and close all valves. 5. Check operation of air vacuum and air relief valves. 6. Check operation of any pump controls and instrumentation, such as flow meters, density meters, control signal loop. 	<ol style="list-style-type: none"> 1a. Check for excessive vibration, unusual noises, lubricant leakage, and over heating. 1b. Check oil reservoir level -- if so equipped. 1c. Check oil feed rate -- if so equipped. 1d. Check packing or mechanical seals -- make adjustment per manufacturer's instruction. 1e. Check position of suction and discharge valves. 1f. Check pump suction and discharge pressure -- if so equipped. 3a. Follow manufacturer's instructions. 4a. Make necessary adjustments or repairs. 4b. Maintain valves and operators according to manufacturer's instructions. 5a. Maintain according to manufacturer's instructions. 6a. Maintain according to manufacturer's instructions. 	<p>Twice/shift</p> <p>Weekly</p> <p>Monthly</p> <p>Weekly</p> <p>Daily</p>
E. Clarifier*	<ol style="list-style-type: none"> 1. Perform daily washdown. 2. Maintain sludge collection equipment and drive units. 3. Inspect baffles and effluent weirs. 4. Check gates and operators for proper operation. 	<ol style="list-style-type: none"> 1a. Hose down the influent channels, tank walls -- especially at the water line, effluent channel and center feed baffles. 2a. Follow manufacturer's instructions. 3a. Maintain baffles in sound condition. 3b. Maintain effluent weirs at an equal elevation. 4a. Operate gates and operators to full open and close position. Adjust gates to equalize flow distribution. 	<p>Daily to weekly</p> <p>Monthly</p> <p>Twice/month to monthly</p>

Table E-1 Wastewater Plant Maintenance

EQUIPMENT	SUGGESTED PROCEDURES	ACTION	FREQUENCY
F. Lagoon Cells and Dikes	1. Remove water weeds.	1a. Pull weeds by hand when they are young.	Daily to weekly
		1b. Spray with environmentally safe commercial herbicide.	As needed
		1c. Lower water level and mow or burn weeds inside dike.	
		1d. Increase water level to above weeds to prevent growth.	
	2. Remove "undesirable" dike vegetation.	1e. Install rip-rap after removing weeds to prevent future problems.	
		2a. Seed dike with grasses that will "out compete" other vegetation.	
		2b. Spray with environmentally safe spray (check with regulatory officials)	
	3. Discourage burrowing animals.	2c. Keep vegetation mowed or burn.	
		3a. Remove weed growths to discourage.	

* U.S. Environmental Protection Agency, *Aerobic Biological Wastewater Treatment Facilities*, Office of Water Program Operations, Washington, D.C., 1977.

Although the above table contains general guidelines for preventive maintenance in wastewater plants, water plant supervisors/operators can follow the same general format to prepare a general guideline preventive maintenance schedule for their plant. For information on water preventive maintenance contact Northern Montana College (265-3757), Rural Water Systems (454-1151), or the Water Quality Bureau (444-2406).

The following page contains examples of an equipment service card and a service record card used in preventive maintenance recordkeeping.

An important part of a good preventive maintenance program is recordkeeping. A supervisor and/or operator needs to know what has to be done and when. A record of the work done to equipment is also important. Equipment service cards are necessary for keeping a record of what needs to be done and when. Each piece of equipment should have a card which includes the name of the equipment, work to be done, how often maintenance should be done, and the time. Service record cards keep track of what work has been done. Without a good recordkeeping system, timely repairs are not made and the municipality's expenses increase. The following are examples of a equipment service card and a service record card for a water plant low service pump.

Equipment Service Card				
Equipment: # 2 Low Service Pump				
Work to be Done	Frequency	Day	Month	
Listen for Unusual Noises	Daily			
Check Pump Temperature	Daily			
Check Water Seal and Packing Gland	Daily			
Alternate Pumps	Weekly	Wednesday		
Inspect Pump Assemble	Weekly	Friday		
Lubricate Bearings	Quarterly		Jan., Apr., July, Oct.	
Check Alignment of Pump and Motor	Quarterly		Jan., Apr., July, Oct.	
Inspect Pump and Service	Semi-Annually		April and October	

Service Record Card				
Equipment: # 1 Low Service Pump				
Date	Work Done	Signed	Date	Work Done
1-4-91	Check Water Seal & Packing Gland Listen for Unusual Noises Check Temperature & Lub Bearings	DN		
1-6-91	Check Water Seal & Packing Gland Listen for Unusual Noises Check Pump Temperature	KK		

Appendix F: Publications

There are numerous publications available from state and federal agencies. A few of the agencies are listed below.

THE MONTANA DEPARTMENT OF COMMERCE

The Department of Commerce has a variety of manuals written to aid in the planning and financing of improvements. A few examples are listed below:

- "Mini Capital Improvements Plan for Small Towns"
- "Planning and Financing Community Water and Sewer Systems in Montana"
- "Handbook: Capital Facilities Scheduling and Financing"

To obtain a complete listing of the Montana Department of Commerce manuals, write or call:

Montana Department of Commerce
Community Technical Assistance Program
Cogswell Building, Room C211
Capitol Station
Helena, Montana 59620
Phone # 444-3757

MIDWEST ASSISTANCE PROGRAM

Examples of manuals provided by the Midwest Assistance Program are:

- "Directory of Services"
- "How to Hire an Engineer"
- "Developing Operator Skills"

To obtain a complete listing of the Midwest Assistance Program manuals, write or call:

Midwest Assistance Program
Box 1456
Whitefish, Montana 59937
Phone # 862-3600

MONTANA RURAL WATER

Montana Rural Water has an extensive library of books and manuals. A couple examples of material available are:

- "Rate Structuring for Small Water and Wastewater Systems"

A Package of Information on Maintenance Schedules for Drinking Water Systems

To obtain a complete listing of the Montana Rural Water manuals, write or call:

Montana Rural Water
925 7th Ave. S.
Great Falls, Montana 59405
Phone # 454-1151

NORTHERN MONTANA COLLEGE

Northern Montana College maintains an extensive library on various subjects involving water and wastewater operation, maintenance, and financing. Examples are:

"Wastewater Utility Recordkeeping, Reporting, and Management Information Systems"
"Costs of Wastewater Treatment by Land Application"
"Utility Manager's Guide to Financial Planning"

To obtain a complete listing of the Water Quality Library materials, write or call:

Attention: Water Quality Library
Northern Montana College
Hagener Science Center
Havre, Montana 59501
Phone # 265-3757

SMALL FLOWS CLEARING HOUSE

An excellent source of publications is the Small Flows Clearinghouse. Examples of materials you can obtain from the Clearinghouse are:

"Management of a Construction Project. A Guide for Grantees"
"Reducing the Cost of Operating Municipal Wastewater Facilities"

To obtain a complete listing of the Small Flows Clearinghouse materials, write or call:

Small Flows Clearinghouse
West Virginia University
P.O. Box 6064
617 Spruce Street
Morgantown, West Virginia 26506
Phone # 1-800-264-8301

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